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# China Report

ECONOMIC AFFAIRS

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12 January 1984

## CHINA REPORT

### ECONOMIC AFFAIRS

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## NATIONAL POLICY AND ISSUES

### JINGJI YANJIU ON IMPROVING ENTERPRISE QUALITY

HK200321 Beijing JINGJI YANJIU in Chinese No 11, 20 Nov 83 pp 3-8

[Article by Jiang Yiwei [5592 0001 5517], of the Industrial Economic Research Institute of the Chinese Academy of Social Sciences: "Several Questions Concerning the Improvement of the Quality of Enterprise"-- passages within slantlines published with underlines]

[Text] Not long ago, leading comrades of the central authorities raised the issue of improving the quality of enterprises in state-run industry and said that "industry is facing a serious challenge. Without considerable improvements in enterprise quality, they will lack vitality and thus will have no competitive force on international markets." They said, "During the next 20 years there are two main things which must be done. One, work on key construction and improvements to enterprise quality. If the several hundred thousand enterprises throughout China remain unchanged, and their quality is not improved, then there can be no talk of modernization in China."

How can we come to understand and appreciate this problem and the effective measures needed to resolve it? This is an important question with which present theoretical economic circles must concern themselves.

In terms of numbers, China already has a considerable number of industrial enterprises, but apart from a few advanced ones, the quality in general is very low. This is mostly manifested in low labor productivity, small product variety, low quality, high consumption, high production costs, and so on. In addition, a considerable number of enterprises are losing money. It is not enough to solve this problem by simply relying on orders from above and demands that enterprise leaders "focus" on various things. What we need to do is to study and find out what enterprise quality really is, what it mainly consists of, and in what ways it mainly manifests itself and what the internal and external conditions are which influence and affect enterprise quality.

Enterprises represent the basic unit of the national economy and represent one of the cells of the entire national economy. However, enterprises do not exist independently; there are intimate links between the various cells and between the cells and the entire body. A solution to the problem of enterprise quality does not merely depend on efforts in enterprises

alone, for an enterprise is linked to various external conditions and factors, in particular several questions pertaining to the economic system. Below are some personal opinions concerning several theoretical questions relating to enterprise quality.

# 1. What Is Enterprise Quality?

Whenever one examines a question the first thing to be done is to clarify the concepts involved, otherwise there is no common language available. In order to clarify the concepts one must analyze them from a theoretical basis.

What is enterprise quality? At present, there are varying opinions. Some people divide up enterprise quality into various key elements in order to explain it. This is referred to as the so-called "key element theory." Others analyze enterprise quality in terms of the capacity or vitality that it manifests. This is referred to as the so-called "vitality theory." Still other comrades consider the problem as an amalgamation of both. I personally feel that the former explains the content of enterprise quality while the latter explains the manifestations of enterprise quality, and that both must be analyzed before one can fully grasp the concept of enterprise quality. If one wants to provide a simple definition of enterprise quality, I feel that it is not a quantitative concept, but that it is a qualitative concept, for it is the integration of all the intensional factors and elements which determine the capabilities of enterprise activities.

When we talk about the capabilities of enterprise activities it should be noted that I use the term /capabilities/ and not the term /capacity/ and the reason for this is that in Chinese the term /capacity/ has already been used in the past, with a specific meaning. We all know that the phrase "determination of production capacity" implies a quantitative investigation of the internal conditions of an enterprise. Since the term /capacity/ has thus already been used to imply a quantitative concept, I have adopted the term /capabilities/ to imply the standard of quality of enterprise activities. In other words, the size of enterprise production /capacity/ is determined by an overall integration of all the intensional and quantitative elements of an enterprise, while the size of the /capabilities/ of enterprise activities is determined by an overall integration of all the intensional and qualitative elements of an enterprise.

What is implied by the various intensional elements in an enterprise? Since industry represents an economic organization which carries out industrial production and management and administration, the intensional elements refer to the various key elements of the productive forces. The three key elements consisting of the laborers, the means of labor, and the target of labor are all material key elements. (I personally believe that the key element of man is also a material key element.) In addition, there are also two important nonmaterial key elements, namely science and technology and organization and management.

Technology is one of the productive forces and management is also a form of the productive forces. In theory both of these statements are generally accepted by everyone. However, these two nonmaterial forms of productive forces both have their individual traits. As a form of the productive forces, technology cannot exist alone; it is a kind of consciousness or ideology and does not manifest itself among the three material key elements of the productive forces, but rather in the organization of the three material key elements, in the organization of each one (such as labor organization, organization of equipment, and product organization) and in the organization of the three together.

When the quality of an enterprise is talked about today, the meaning generally implies the quality of personnel, the quality of technology, and the quality of management. On the basis of the above analysis, technological quality should manifest itself within the quality of the workers, the quality of the means of labor and the quality of the target of labor. Thus, in terms of key elements, the quality of an enterprise may be divided up into four key elements, namely the quality of the workers, the quality of the means of labor, the quality of the target of labor, and the quality of management.

## 2. The Basic Content of Improving the Quality of Enterprises

The advantage of dividing the quality of an enterprise into four key elements is that it is easier for us to then grasp what the basic requirements are for improving the quality of an enterprise, as well as understanding the basic channels of doing so. Below are the various things involved:

### 1. Improvements in the quality of workers.

The workers of an enterprise include all mental and physical laborers, including all leaders and all of the working masses.

In order to understand what is really required in order to improve the quality of workers, further analysis is necessary. I believe that the quality of workers in socialist enterprises should mainly manifest itself in the following three ways: Physical quality, cultural quality, and ideological quality. At present, we are demanding that all leading cadres possess the four qualities of being revolutionary, youthful, being knowledgeable, and having some expertise. In actual fact these qualities are aimed at improving the above-cited three qualities. Youthfulness is in fact aimed at improving physical quality; expertise and being knowledgeable are demands on cultural quality while being revolutionary is a demand on ideological quality. Hence, the demand that cadres work towards the four qualities can also be applied in its broadest sense to the masses of workers.

There is one question which is worth examining at this point. When we talk of improving the quality of workers, it is very easy to examine only individual workers and to forget that what we are actually talking about is the quality of an enterprise, and thus we must consider the problem on

the basis of the entire enterprise. It is the entire working body of the enterprise which represents the workers. Obviously, the entire working body is made up of individual workers, but in general terms the problem should be considered and tackled as an integration of demands on the quality of individual workers and demands on the organizational structure of the entire work force. For example, "youthfulness" does not automatically imply that the younger the workers the better and "being knowledgeable" does not require that all workers must attain a university level education. Similarly, "revolutionarism" may be divided into an advanced and developed section and a more general section.

In order to clarify and make the meaning of the workers' physical quality more precise, we could replace "youthfulness" with "being healthy." Nevertheless, the extent of such health or fitness depends on the kind of work involved, which set different standards. For example the health and fitness requirements for physical workers are higher, and even more so for those doing heavy physical labor, and the retirement age cannot be the same for everyone. Those who perform technologically complex work or technological work in general require an accumulation of experiences and so they may be older, but should integrate older, middle-aged, and younger workers so as to create a system of developing replacements. As far as leading cadres are concerned, cadres responsible for the command of one line of production should be younger while those cadres involved in or responsible for policy-making should be older. Of course, all of this requires concrete analysis on a case-by-case basis. Thus, in terms of the overall work force, being youthful is good and so is being healthy or fit. In the final analysis, what is required is the design of a rational structure of physical quality with different specifications for different jobs and different positions.

Cultural quality implies both basic cultural knowledge and specialized knowledge and expertise and, as with physical quality, it also implies a question of structure, which specifies different demands in terms of cultural quality, depending on the workers' production and work positions.

Ideological quality should naturally constantly improve, but in terms of the overall work force it can always be divided up into three sections, the advanced, the medium, and the backward. A rational structure should ensure that the first and the last are small in number and that the middle is large. There should be planned implementation of ideological and political work to ensure that the advanced section spurs on the medium section and also to ensure that the advanced section continues to become even more advanced.

## 2. Improvements in the quality of the means of labor.

The means of labor includes all the means of labor throughout the enterprise, mainly comprising the tools of labor and production equipment and installations.

Improvements to the quality of the means of labor mainly involves improving the actual quality of the above-mentioned items, and does not mean simply



increasing them in terms of numbers. This does not imply absolutely no quantitative increases. As was said earlier, when we talk of the quality in its entirety, and in terms of the means of labor we are not talking about each individual machine or piece of equipment. In order to improve the backwardness of enterprises in terms of technology and equipment, the addition of one key piece of advanced machinery may be seen as a qualitative improvement as well as a quantitative improvement. The problem mainly requires that we concentrate on quality and not simply expanded production capacity. In other words, improvements to the quality of labor require improvements to technological standards and not extensional expansion of production capacity.

The quality of the means of labor is also a question of rational structure. In general terms, we should make use of advanced technology and machinery, but it is not primarily a question of the more advanced the better. Second, not all links in the production chain need to adopt advanced technology and equipment. There is a specific purpose involved in improving the quality of the means of labor, and advanced technology and equipment should not be adopted purely for the sake of doing so. Improvements should be done on the basis of considering an integration of advanced technology and economic necessity. On the basis of China's actual situation, some links in the production chain should adopt a principle of technological intensiveness and others can adopt a principle of labor intensiveness and thus make full use of the enormous labor resources available to us in China. For example, in order for some products to reach high standards of quality, many links of the production chain must make use of advanced technology and equipment but other links, such as product packaging, should not use automation for packing; instead, manual packaging should be used. In this way quality requirements can be met, but in the case of packaging, it can be done so through the adoption of labor intensive principles. Questions relating to the improvement of the quality of the means of labor all relate to problems of how to rationally organize the technological structure of the means of labor.

### 3. Improvements to the quality of the target of labor.

The target of labor mainly implies the processed material resources of production labor in an enterprise. It also refers to the semi-finished products created out of these resources after processing, as well as to the products themselves. Improvements to the quality of the target of labor requires an ability to make rational and profitable use of resources and develop new resources. It is also connected to the creation of more and better use value and the development of products given the specific resources available, all with the aim of satisfying social demand. Utilization of resources and the development of products are both questions of structure; for example, major raw materials should be used for leading products while leftover raw materials should be used for the by-products of production, and so on.

#### 4. Improvements to the quality of management and administration

The basic function of management is organization. Each key element in the productive forces must be organized together before effective production activities may be achieved. Even if the quality of each worker is good, irrational management organization will lead to a situation in which there is no scope to exercise one's abilities. Even if each means of labor is very advanced, irrational management organization will not permit these means of labor to express their advanced qualities. Unsatisfactory management will also lead to enormous damage to and waste of material resources, high production costs, and poor quality. Thus, improvements to the quality of management and administration is a decisive and key link in terms of improving the overall quality of enterprises. Improvements in the quality of workers, the means of labor, and the labor target, and quality in a material form--all require certain conditions and, more or less, certain investments. Improvements to the quality of management represents the premise for improvements to these other qualities and improvements in management quality itself require no investments. Thus, one may say that it is an effective measure that requires no financial investment but returns enormous profits.

As was said earlier, the quality of technology manifests itself in the quality of the workers, the means of labor, and the target of labor, but it should be understood that improvements in the quality of technology mainly implies improvements in the quality of the means of labor. Planned technological transformations represent an important link in terms of improvements to enterprise in general, even though it cannot be considered as primarily essential as the quality of management.

#### 3. The Main Indications of Improvements in the Quality of Enterprise

What are the main indications of the good or bad quality of an enterprise? Are there quantitative indexes which can be used to illustrate the extent of the quality of enterprises? As was mentioned earlier, the quality of an enterprise is a qualitative concept and it manifests itself through the integration of several key factors. It is very difficult to draw any quantitative specifications for it. For this reason, we can only analyze it on the basis of its various manifestations.

We say that the quality of an enterprise is a synthesis of all the intensional factors which determine the capabilities of an enterprise's activities. It is all the various intensional factors which indicate the content of the quality of enterprises, while it is the extent of the capabilities of the activities which actually manifest the quality of the enterprise. However, from which angle should one examine the extent of the enterprise capabilities? I believe that they should be examined from the following three angles:

First, signs of highly effective enterprise activities.

Efficiency or efficacy is a qualitative concept. In terms of production, it does not indicate how much can be produced but rather what can be produced. If the quality of an enterprise is depicted in terms of how

much can be produced, then large factories will always produce a higher quality product than small factories. Even if large factories have high production levels they do not necessarily have high quality standards. The same cannot be said for what can be produced. A small factory is built on a small scale but it may be able to produce high quality products and high precision goods which fulfill market demand, and it may be able to produce marketable, cheap, and attractive products in this case, the small factory has very high quality.

The extent of the efficiency or efficacy of enterprise activities first manifests itself in the ability to adapt to objective conditions and second in its innovation. The former may be regarded as passive and the latter as active. When the objective conditions demand market change, the enterprise's products must be able to adapt to this change and then change themselves, a sign of suitability and adaptability. When the price of raw materials increase, the enterprise must be able to adopt measures to economize on raw materials and other forms of consumption so that products may still be profitable without becoming more expensive. This is also a form of adaptability. However, adaptability is still passive and negative and an enterprise can illustrate even higher quality through innovation, by not only satisfying demand but by creating a demand. Thus, the enterprise can create some new use value, open up markets, and promote new supply and demand.

The integration of suitability and innovation represents market competition and in capitalist evaluations of the quality of an enterprise, competition may be said to be the only criterion. There is a little competition between socialist enterprises but it cannot be seen as the only measure of the quality of an enterprise since the common aim of socialist enterprises is to fulfill constantly increasing social demands. The competition that does exist is based on this common goal. An even more important task of socialist enterprises is to make useful contributions to the state and society. Competition is not solely for the enterprise's own interests. It would be more fitting and exact to talk of contributing ability rather than competition. The extent of the efficacy or efficiency of enterprise activities should manifest itself in the enterprises' contributions to society. The difference between this and competition is that in order to improve the contributing ability of an enterprise, it is sometimes necessary for the enterprise to sacrifice some of its own personal interests.

Second, signs of highly efficient enterprise activities.

Highly effective enterprise activities are not enough to illustrate the quality of the enterprise for in terms of the enterprise's organization of its intentional activities, one still needs to look for signs of high efficiency. Suitability or adaption to market changes and innovation must both be fast and accurate. If the quality of an enterprise's workers, means of labor, and labor target is high, and if the enterprise has high quality management, then it can come up with timely management policy changes on the basis of market changes and quickly and timely alter the organization of production and speedily bring out new products, achieving greater things



either in terms of products quality or product price. The ability to do something or anything is an innate sign of the quality of an enterprise, but if an enterprise can only do things very, very slowly and is always behind everyone else, then one cannot say that it is of a high quality.

Third, signs of high results in enterprise activities.

In terms of achievements, the quality of an enterprise can be seen in terms of the economic results of the enterprise.

The concept of economic results is not the same as economic effects since the meaning of the former is much broader than the latter. Economic effects imply a comparison between labor consumption and the results of labor and can be indicated by means of value indexes. Economic results, however, not only take value into account, but also use value. Thus, in terms of investment, not only must one assess labor consumption, one must also consider material consumption. For example, economization and rational use of natural resources, even though these resources do not include material labor, must be strictly controlled if there are shortages. In terms of production, one cannot simply consider quantity and production value, one should also consider product variety, the marketability of the quality of the products, and so on. Furthermore, not only should one consider the economic results of that enterprise itself, one should also consider the economic results of the consumer and society.

Use value is not fixed or constant and cannot be compared. It is very difficult to say whether the use value is higher of a tea cup or a hot water flask. In terms of input and output, economic results embody all elements of use value. It is also very difficult to arrive at definite specifications when one compares economic results. All economic work should function around economic results and this principle has now been confirmed. However, the question of how to assess economic results has still not been fully solved. I personally believe that in order to solve this question, one should, in the final analysis, resort to price control of the use value, thus transforming demands of use value into value and then continuing to use value indexes to indirectly illustrate economic results. For example, the implementation of high quality and low prices as far as product quality is concerned, the compensation transferal of advanced technology, the levying of a natural resources tax on the use of natural resources, the implementation of a reward and penalty system for environmental protection, interest or fund possession, and so on, are all methods of transforming various factors--which are not related to labor consumption--into value factors. After the adoption of these measures, the level of economic results may still be synthesized as value indexes.

To summarize the above, the quality of an enterprise should manifest itself in the "three highs." High efficacy, high efficiency, and high results. The final indication of its success or failure can be seen in the enterprise's economic results. If the control of use value can be transformed into a value index, then after all-round implementation of the policy of transforming profit into tax, the enterprise's after-tax profits will be the main indication of its quality as an enterprise.

#### 4. Internal and External Conditions Relating to Improvements in the Quality of Enterprises

Since enterprise quality is an integration of all intensional factors which determine the capabilities of the enterprise's activities, improvements to enterprise quality depend mainly on the efforts of the enterprise itself. This is a very logical conclusion. However, enterprises do not exist in a vacuum and socialist enterprises are economic units under the unified leadership of the socialist state. The activities of each enterprise are restrained by the state, so improvements to the quality of enterprises cannot depend totally on the enterprises themselves. It can be said that the more the state intervenes directly in the internal affairs of an enterprise, the less improvements to enterprise quality depend on the efforts of the enterprise itself, so the two are in inverse proportion.

Since the 3d Plenary Session of the 11th CPC Central Committee, we have been implementing an open-door policy in economic terms as well as a policy of domestic revitalization, expanding autonomy in enterprise production management, and mobilizing enthusiasm and motivation among enterprises to improve their own quality. However, these changes are still in the experimental stage. As yet, we still lack comprehensive methods of assessing how great enterprise autonomy should be and how the state should manage the enterprises. The enterprise consolidation which we have carried out over the last few years has proved very successful in encouraging improvements in the quality of enterprises, but this consolidation still relies mostly on administrative strength. As yet we have still not created a situation in which enterprises find it very hard to exist and develop if they do not consciously improve their quality. As far as many enterprises are concerned, consolidation is a case of "I must consolidate" and not "I want to consolidate" there have been limits to the success of consolidation work. After consolidation checks have been made in some enterprises, there have been tendencies for the enterprises to revert to former practices. The reasons for this are given above.

In order to correctly solve the question of improving enterprise quality it is vital that we mainly depend on conscious efforts on the part of the enterprises themselves. Furthermore, in order for enterprises to consciously and constantly increase their own quality, external pressure and internal motivation must be created. This requires us to studiously assess the experiences that we have gathered during the last few years of system reform, clarify the nature, position, and role of socialist enterprises, and clearly explain the relationship between the state and enterprises which includes the relationship of administrative leadership, economic activities, and distribution of profits between the state and the enterprises. As far as the enterprises are concerned, these relationships should define enterprise systems of management responsibility in different forms with duties, powers, and interests all integrated. In a macroscopic view of economic management, reforms are needed for the system of planned management, the system of distribution of materials and goods, the tax system, and the system of labor wages. In reality then we must reform and solve all management systems in industry.

As far as the enterprises themselves are concerned, improvements to quality primarily entail coming to grips with management and establishing a democratic and centralized leadership system, mobilizing the enthusiasm of all workers, and arousing their sense of being masters of their affairs, so that improvements to enterprise quality become the common concern of all workers in an enterprise. An all-embracing system of personnel and worker management must be set up which integrates allocation, utilization, training, assessment, promotion, and treatment of all personnel, so that we may ensure that every worker makes great efforts to improve and that every worker has the chance to move upwards. In this way we may rely on the conscious efforts of the workers to constantly improve the quality of the workers. By establishing a comprehensive system of technology and quality management and integrating planned technological transformations we may constantly improve the quality of the means of labor and the target of labor in enterprises. By establishing comprehensive economic accounting we may constantly improve economic results in an enterprise. Finally, we must also establish comprehensive planned management and, within the sphere of enterprise autonomy, draw up management policies and, by means of careful planning, integrate and organize together all the various work sectors, thereby achieving the enterprises' production management targets in a very effective way. A system of democratic centralization should be implemented in the leadership system. In terms of organizational management we must implement the above-mentioned four kinds of comprehensive management so that the concept of "one system, four comprehensives" may become a management system for socialist enterprises with Chinese characteristics. As far as the internal affairs of the enterprises are concerned, we may refer to a kind of "system engineering" designed to improve enterprise management. As far as the external sphere of the enterprises is concerned we need another kind of "system engineering" involving an industrial management system which links up all the gaps to form a whole. With the integration of these two, and by relying on the intelligence and wit of the Chinese people, we believe that in the not too distant future there will be a fundamental change in China's industrial enterprises.

CSO: 4006/186

UNIFIED MANAGEMENT OF CIRCULATING FUNDS DISCUSSED

Beijing CAIMAO JINGJI [FINANCE, TRADE AND ECONOMICS] in Chinese No 8, 11 Sep 83 pp 39-42

[Article by Shen Shuigan [3088 3055 2704], Head Office, Chinese People's Bank: "Some Problems in the Reform of the Circulating Funds Management System"]

[Text] The state enterprises have made a number of changes in the circulating funds management system in the course of economic construction in our circulating funds management system is the practice of "eating out of the big pot." The major defects of the practice are as follows: 1) Circulating funds allocated to the enterprises by the state cannot be increased or reduced to meet changes in their production, so that the enterprises are not accorded equitable treatment. Furthermore, these funds are allocated without interest or at a low rate of interest, so that the state is hard put to come up with the funds required. 2) Since the expansion of autonomous powers accorded to the enterprises, they have used their production development funds to invest in fixed assets instead of using it to replenish their circulating funds. 3) Financial losses resulting from unrecoverable circulating funds and price reductions are not promptly dealt with, so that there is no way to recover funds allocated by the state or loans extended by the banks when the enterprises are free from economic responsibility. 4) While the usage rate of the circulating funds of enterprises is high, the rate of circulation is low, so that funds are not used to good economic effect and are being wasted. Since a high rate of usage has no bearing on the amount of profit retained by the enterprises, there is no economic lever to induce the enterprises to reduce the usage of funds. 5) Bank loans are not extended in line with the principle centered around the increase of economic effectiveness, so that the benefits are not what they should be. Loans are also being extended when they are not justified. The policy on the payment of interest does not serve to offer any incentive to the progressive enterprises or to impose restrictions on those lagging behind.

In order to eliminate the defects listed above, it is necessary to do away with the practice of "eating out of the big pot" in the management of circulating funds. At the same time, in order to adapt to changes which have taken place in the ways credit funds are being allocated in recent years, it is necessary to strengthen the management of funds, to place a

heavier responsibility on the banks, to further tap the potentials in the use of funds, to exhort the enterprises to reduce the use of circulating funds and to increase economic effectiveness. The State Council has decided that the entire amount of circulating funds of the enterprises is from now on to be placed under the unified management of the banks. This represents a major reform in banking operations and an important part of the reform of the national economic management system. The time has come to implement the reforms as a matter of urgency, to conduct tests at selected points and to sum up our experiences in carrying out the reforms extensively in stages and batches, and to put into practice without delay the new system of placing circulating funds under the unified management of the banks.

The major economic reform of placing circulating funds under the unified management of the banks will inevitably lead to an adjustment in the economic benefits accruing to the various units. From the microcosmic economic point of view, this economic reform will not only bring new changes in the relationship between the enterprises, on the one hand, and the financial units, the banks and the concerned departments, on the other, but, more important still, will, from the macrocosmic economic point of view, have an important bearing on achieving a balance in the extension and recovery of credit loans, an overall balance between revenues and credit loans and a balance in the ratio between investment in fixed assets and the amount of circulating funds.

#### Balance in Credit Loan Revenues and Expenditures in Relation to the Overall Financial Situation

The reform of placing the circulating funds of state enterprises under the unified management of the banks stipulates that, from now on, the national budget will no longer provide for additional allocations of circulating funds by the government and that the circulating funds originally allocated by the state will continue to be retained by the enterprises, but placed under the unified management of the banks. At the same time, the old method of determining the amount of fixed circulating funds on the basis of the amount of reserves, production and finished products is to be discontinued. Instead, the average amount of funds realized from the amount of sales by the advanced enterprises is to be used to determine the amount of circulating funds to be used. It is necessary to establish a sound system for assessing the amount of circulating funds to be made available to the enterprises, to set different interest rates and floating interest rates, and to establish a new system for the enterprises to replenish their own circulating funds. In addition to the replenishment of part of the circulating funds by the enterprises, these reforms, which call for the banks to assume major responsibility for supplying circulating funds, will inevitably create new problems in the achievement of a balance between credit loan revenues and expenditures.

According to statistics compiled by the concerned quarters, the total amount of circulating funds from 1979 to 1982 showed an increase of 159 billion yuan, of which 80 percent, or 127.5 billion, was supplied by banks in the form of loans, while only 8 percent, or 13.5 billion, was allocated



by the state treasury. Of the increased amount of circulating funds during these 4 years, the amount allocated by the state dropped from 18 percent in 1979 to 5 percent in 1982, while the amount supplied by the banks in the form of loans increased from 70 percent to 83 percent during the same period. With the reform of the circulating funds management system, the entire responsibility for the allocation of additional funds is to be assumed by the banks. Furthermore, with the development of production and the widening of circulation, the responsibility of the banks for making circulating funds available will be further increased. Can this responsibility be assumed by the banks over the long haul?

In view of the fact that the total amount of credit loans extended by the banks came to over 360 billion yuan by the end of 1982, they are well capable of extending loans for circulating funds and construction projects. The problem is that a large part of these credit loans is tied up over such a long period of time that a sufficient amount of revolving funds is not available to be put to use. For instance, the amount of gold, foreign exchange funds, financial overdrafts and loans, agricultural bad debts and funds tied up by the overstocking of products by the industrial and commercial enterprises totals some 130 billion yuan, or one-third of the entire amount of credit funds. For this reason, the amount of credit funds which can be turned over and used by the banks is rather limited.

It should be noted that the rate of increase in bank deposits has been on the downward trend since 1981. In 1980, bank deposits increased by 23.8 percent compared to the previous year, while the rate of increase was 22.6 percent in 1981 and 16.2 percent in 1982. With the concentration of part of the funds of the localities and the enterprises in the central government, the rate of increase in bank deposits is likely to show a further decline. Furthermore, the rate of profit paid by the banks to the state treasury, which has already been increased from the original 20 percent to 62 percent, is likely to be adjusted upward. Thus, the amount of credit loan funds available to the banks will be further reduced. Nevertheless, the banks are required not only to assume heavier responsibility for accumulating more funds to meet key construction needs, but, already saddled with the responsibility for the management of circulating funds, also to assume a greater responsibility for making circulating funds available. Thus, the problem of maintaining a balance between credit loan revenues and expenditures, aside from certain measures to be adopted by the banks, is something which must be given consideration in order to achieve an overall balance between the available financial resources and the amount of credit loans.

Under the present difficult financial situation, what are we to do if an imbalance should occur between credit loan revenues and expenditures? Under normal circumstances, the solution is either for the state treasury to increase the amount of credit funds allocated to the banks, or for the banks to reduce the amount of profit paid into the state treasury. However, when the financial situation is mired in difficulties, it would not be easy to resort to these remedies. That being the case, it is up to the banks to adopt the necessary measures. For instance, they can increase their profits by increasing the interest rate for loans across the board.

Under present circumstances, while it would be difficult to increase the interest rate for loans, the existing rate should at least not be reduced. However, in order to reduce expenditures incurred by the banks, consideration should be given to the possibility of reducing to a suitable degree the interest rate for savings deposits. In addition to that, the banks will have to overcome the difficulty of achieving a balance between credit loan revenues and expenditures by increasing the economic effectiveness of credit funds, speeding up the circulation of funds and reducing the amount of funds held by the enterprises. If the circulation rate of credit loan funds cannot be speeded up, the only alternative is for the banks to increase the issuance of currency in order to achieve a balance between credit loan revenues and expenditures. In a certain sense, it is more risky for the banks to finance construction projects by increasing the issuance of currency than by openly resorting to deficit spending. When a problem is open to view, it is laid bare for all to see, but when it is covered up, it is not easy to see the dangers that lurk in the dark. Unless there is a sufficient supply of commodities and an increase in the labor force, the only way to absorb the increased issuance of currency is to increase commodity prices. For this reason, we must, after circulating funds are put under the unified management of the banks, direct our attention to the need of achieving a balance between credit loan revenues and expenditures and an overall balance in the finances of the state.

#### Balance between the Amount of Investment in Fixed Assets and That of Circulating Funds

According to the Marxist theory of reproduction, the continual process of reproduction in society requires such essentials as the constant availability of circulating funds as well as fixed assets. Therefore, to maintain a proper ratio between fixed assets and circulating funds, and especially to determine the scale of investment in fixed assets in the process of expanded reproduction, it is essential that we also give consideration to the availability of circulating funds required to ensure the smooth progress of reproduction in society.

Our experience in economic construction tells us that for every 100 yuan in fixed assets, the industrial enterprises must have roughly 28 yuan in circulating funds. If the circulating funds of the supply and marketing enterprises are also taken into consideration, then 33 yuan in circulating funds would be required for every 100 yuan in fixed assets. If the circulating funds of the commercial departments are also included, then the ratio should be 100:60. From the point of view of the banks, to ensure the normal operation of investing in fixed assets in reproduction in society, they must make circulating funds available to the industries, material supply and marketing departments and commercial enterprises. For this reason, the ratio of 100:60 should be used by the banks in determining the scale in the supply of circulating funds.

Between 1979 and 1982, the actual ratios between the amount of investment in fixed assets and the amount of circulating funds were 100:41, 100:

54, 100:71 and 100:51 respectively. Except for 1981, when the scale of capital construction was kept strictly under control, the proper ratio was not maintained for the other 3 years. According to the scale of investment in fixed assets planned for 1983, if the amount of circulating funds required is determined on the basis of the 100:60 ratio, and if the additional circulating funds originally allocated by the state but now made available by the banks is compared with the additional loans used as circulating funds by the state enterprises according to the credit loan plan, it may be seen that the banks can make available only half of the circulating funds required. This is something which calls for attention. What, then, is the solution? The only solution is to increase the economic effectiveness of credit loan funds and to speed up their circulation. If the credit loans used as circulating funds according to plan can be made to turn over twice a year, prospects are good for maintaining a proper ratio between investment in fixed assets and the amount of circulating funds for the current year. Otherwise, there will be a serious shortage of circulating funds which can be made available by the banks. Judging by the actual situation insofar as the turnover rate of loans used as circulating funds extended by the banks between 1979 and 1982 is concerned, it will be difficult, but not impossible, for bank loans to turn over twice in a year. During these 4 years, the average annual turnover rates were 1.6, 1.64, 1.25, 1.48 and 1.82 respectively. During 1983, the banks must, therefore, exert strenuous efforts to make available the circulating funds required by the scale of investment in fixed assets that has been determined. The above analysis indicates that, in determining the scale of investment in fixed assets, the state must henceforth also give consideration to the availability of circulating funds and the maintenance of a proper ratio between the amount of investment in fixed assets and the amount of circulating funds available as an important factor in setting a limit to the scale of investment in fixed assets.

#### Establishment of a New System for the Enterprises to Replenish Their Own Circulating Funds

One new provision in the reform of the circulating funds management system is for the enterprises to replenish part of their own circulating funds. The reform measure clearly stipulates that the different enterprises are to adopt different concrete measures for replenishing their own circulating funds to ensure the achievement of a balance between credit loan revenues and expenditures and a balance in the ratio between investment in fixed assets and the amount of circulating funds. This represents a basic distinction between placing circulating funds under the unified management of the banks and the extension of the entire amount of credit loans.

This provision was made on the basis of the fact that, as independent operating economic entities, the enterprises must have at their disposal a certain amount of circulating funds to be used for production turnovers and that a part of the turnover of circulating funds in the process of reproduction is in constant use by the enterprises. With the expansion of production, the amount of funds in constant use will continue to increase. If



these funds are supplied by the banks in the form of loans, it will mean that the banks can only collect interest on such loans and that they can never recover the principal. That would alter the nature of credit loan funds and violate the law governing the making of payment for credit loans. It is for this reason that the circulating funds used by the enterprises over a long period of time in the process of reproduction cannot be supplied by the banks in the form of loans. In the past, these circulating funds used to be allocated by the state treasury. Now that the limit on the amount of circulating funds and the amount in excess of the quota has been lifted, the circulating funds used for production turnovers over a long period of time will have to come from the development funds of the enterprises. That is capital which has to be paid by the enterprises in engaging in production. In engaging in expanded reproduction, the enterprises cannot merely concern themselves with increased investment in fixed assets without giving thought to the need to increase the amount of circulating funds. However, in view of the low amount of profit retained by the enterprises at the present time, the banks may, for the time being, have no alternative but to make loans available to the enterprises while the measure for the enterprises to replenish their own circulating funds is being put into practice. However, from the theoretical and policy points of view, it is entirely proper to stipulate in clear-cut terms the need for the enterprises to replenish a part of their circulating funds as a major measure of reform. It is obvious that the placing of circulating funds under the unified management of the banks is not a revival of the practice adopted in 1959-1960 for the extension of loans by the banks to cover the entire amount of circulating funds required by the enterprises.

The purpose of establishing a new system for the enterprises to replenish their own circulating funds is not only to do away once and for all with the practice of eating out of the big pot, to prevent the enterprises from living off the banks, to render assistance to the enterprises in strengthening their economic responsibility system and to conserve the use of circulating funds, but also to prevent tens of thousands of units from concerning themselves exclusively with making investments in fixed assets, to correct the improper practice of counting on the banks for the supply of circulating funds and to prevent the revival of the old practice for the banks to extend the full amount of credit loans to cover the need for circulating funds. This has a most important bearing on the achievement of a balance between credit loan revenues and expenditures and a proper ratio between the amount of investment in fixed assets and the amount of circulating funds.

Between 1979 and 1982, the entire amount of funds used for investing in fixed assets raised by the enterprises themselves came to over 100 billion yuan. During these 4 years, the circulating funds raised by the enterprises by various means to be used for production turnovers came to less than 20 billion yuan, or only 17 percent of the funds raised by the enterprises for investing in fixed assets. According to the plan for the enterprises to raise their own funds for investing in fixed assets. This amount is obviously inadequate. For this reason, the problem of whether or not the enterprises are capable of replenishing their own circulating funds following the reform of the circulating funds management system is one of great consequence.

FAVORABLE INVESTMENT ENVIRONMENT IN NINGXIA URGED

Yinchuan NINGXIA RIBAO in Chinese 27 Aug 83 p 1

/Article by Yu Chunqun /7625 2504 5028/: "More Than 21.01 Million Yuan in Income Taxes Collected; The Work of State-run Enterprises in Ningxia Autonomous Region in the Substitution of Taxation for Profit Delivery Is Proceeding Smoothly Through the End of July"

/Text/ The work of state-run enterprises in the substitution of taxation for profit delivery is proceeding smoothly. As of the end of July, the entire autonomous region collected 21.05 million yuan in income taxes from state-run enterprises. This constitutes 41.6 percent of the annual budget.

After receiving the State Council documents concerning the substitution of taxation for profit delivery, party committees and government units at every level were extremely attentive to them and promptly established small leadership groups for substitution of taxation for profit delivery or made special people responsible for work in substitution of taxation for profit delivery. In actual work, the prefectures, cities and counties earnestly studied the implementation, calculations, appraisals, payments, collections, etc., of substitution of taxation for profit delivery. In appraisal work, the prefecture office handling the substitution of taxation for profit delivery sent out three small groups who carried out inspections in Guyuan, Yinnan and Shizuishan; as they discovered problems, they promptly studied and helped to solve them. Excluding those units that according to the national regulations do not carry out substitution of taxation for profit delivery, the rest of Ningxia's state-run profit enterprises all carry out substitution of taxation for profit delivery. Decisions regarding reasonable profit retention by the enterprises is a strict requirement but flexibly executed. For example, of 33 industrial and communications industries, 21 or 64 percent of the total, had an upward adjustment of retained profits, and 10, or 30 percent of the total, had a downward adjustment of retained profits. All together, the level of retained profits decreased one percent compared to the original figure, and this is more or less sufficient in every respect.

The concerned responsible people say: in short, Ningxia's work in substitution of taxation for profit delivery is proceeding smoothly, however there are also a few problems that we must resolve. Carrying out substitution of taxation for profit delivery, has raised the demands made on tax collectors and enterprises.

Tax collection departments at all levels must enthusiastically create the conditions by means of experienced cadres helping along the inexperienced, short-term training and other varied forms, to enhance the quality of the work of tax collection cadres, and so adapt to the continually changing new situations. Enterprises must emphasize changing direction to perfecting their internal economic system of responsibility, and at the same time must strengthen capital management, strictly implement the scale of costs and standard of expenditures as stipulated by the state, make a clear distinction between channels for funds, control expenditures outside of business, and put an end to the occurrence of the phenomenon of illegal financial and economic records. In improving economic results, we must resolutely work, and cause the state, the collective and the individual to reap benefits from the enterprise's increased production and increased revenue.

12437

CSO: 4006/041

## FINANCE AND BANKING

### DEPRECIATION RATE ADJUSTMENT EXAMINED

Beijing GUANGMING RIBAO in Chinese 11 Sep 83 p 3

[Article by Tian Chunsheng [3944 2797 3932] and Liu Huinan [0491 1979 3948]: "Rationally Adjust Depreciation Rates"]

[Text] Restructuring fixed asset depreciation fund collection methods, rationally adjusting depreciation rates, and seeing to it that the value and use loss of depreciation funds and fixed assets collected by enterprises are basically matched is an important part of implementing the policy of adjusting and restructuring the national economy, and these require serious study and careful handling.

The comprehensive depreciation rates that our nation's enterprises are currently implementing were basically derived from the overall calculations of individual depreciation rates for fixed assets determined in accordance with the accounting of national assets of 1951. In these 30 years since then, the comprehensive depreciation rates of each industry have risen somewhat, but the rise has been miniscule.

The fixed assets depreciation rates of the fifties were primarily based on the innate conditions of wear out for each type of fixed asset, without considering the imperceptible wear and tear factors involved in technological advances which hasten the obsolescence of fixed assets. At that time, our nation had just begun socialist construction, industry was at its foundational stage and the productive capacity of the machine manufacturing industry was weak and was not able to meet the needs of the rapid development of construction. Because of this, we primarily determined depreciation rates based on the innate service life of equipment, and any equipment which could be repaired and keep in service would not be scrapped. This suited the objective conditions of that time.

Now, the situation is different. On one hand, science and technology [S&T] has continually progressed, causing a speedup in the imperceptible wear and tear factors of fixed assets. Especially under a condition of a shortage of energy, raw materials and certain products, the need for hastening the renewal of old equipment which expends a lot of energy, is inefficient and produces many flawed products becomes clearer every day. On the other hand, through 30 years of construction, the productive capacity of our nation's

machinebuilding industry has already made tremendous development. At present, we are speeding up technical reform and gradually strengthening our ability to supply appropriate advanced technological equipment to every sector of the national economy. And carrying out the economic policy of opening to the outside further enables us to import tremendous amounts of advanced technology suited to our national conditions. On the basis of combining needs and possibilities, this is to offer objective requirements concerning adjusting our nation's depreciation rates and, when setting new depreciation rates, to suggest that we appropriately consider the imperceptible wear and tear factors at work on fixed assets.

In considering the imperceptible wear and tear factors in depreciation rates, we want to change from basing the rates on natural durability periods to basing them on economic-use periods. Economic-use periods come from considering two interrelated factors on the foundation of natural durability periods. One is the overall consideration of investment in and production from fixed assets, selecting the optimum periods of usefulness. The other is the overall consideration of the costs and benefits of moving forward replacement and renovation, determining rational periods of usefulness. Of course, in considering these two factors, we must correspond with and be limited by the nation's levels of productive capacity and of S&T and the nation's technical and economic policies. Only in this way can we attain comprehensive economic results that are in line both from the macro and the micro viewpoints.

Using economic-use periods to determine depreciation rates requires appropriately increasing the depreciation rates for present equipment. Present adjustment of depreciation rates should involve attention to the following two matters.

First, the extent to which depreciation rates are increased must correspond to the level of the nation's productive capacity and the rate of its S&T advance. Equipment renewal has a mutual impact on and is mutually conditioned on the level of productive capacity. Continual advanced in equipment provide a new material condition for the development of the productive forces and hastening their development; and the development of the productive forces, then, provides the possibility that new advanced equipment can replace old equipment. The two interact. However, the production of equipment is a component part of social production, and the rate and scale at which equipment renovation can ultimately proceed is, in the final analysis, restrained by the level of all productive forces. Adjustments by the world's industrially developed nation's of their depreciation rates have all occurred along with rises in the levels of the productive forces and of S&T and have been carried out at different times. We should learn from the experience of foreign countries in adjusting depreciation rates and see to it that the rate of increase in our depreciation rates corresponds to the level of the productive forces and the rate of S&T advance of our nation at the time.

Second, adjustment of depreciation rates must correspond to the nation's social system and economic management system. Differences in depreciation rates of each nation are not only due to differences in the levels of productive forces, but also due to dissimilarities in social systems and economic



management systems, so that different depreciation policies are adopted. In capitalist countries, capitalists always adopt "rapid depreciation methods," increasing depreciation rates, calling for more depreciation in the early stages of fixed assets use, exaggerating costs, reducing profits and making it easy for them to postpone turning over a portion of their income tax to the state, obtaining from the state in that way a "long-term, interest-free loan." Our nation operates a planned economic system with economic relations between the state and enterprises based on the development needs of the national economy and where planned regulation is carried out through the necessary administrative management and economic means. In setting depreciation rates, we should adopt the principle of having depreciation periods that are basically in accord with actual use periods, seeing to it that the collection of depreciation funds is largely in accord with the needs of renovation. In doing so, we can see to it that the accounting of enterprises and of the entire national economy is done accurately and not falsely. If things are not done this way, and we implement the "rapid depreciation methods" of the Western nations, then, of course, more depreciation funds can be collected, but taxes and profits turned over to the state will be correspondingly reduced, further intensifying the present contradiction of already very dispersed financial resources, which is of no benefit to the state in suitably concentrating funds to guarantee key construction. Because of this, a "rapid depreciation" policy does not really suit our national conditions.

The above makes it clear that adjusting our nation's depreciation rates requires resisting two incorrect ideas. One is ignoring the fact that the level of our nation's productive forces and S&T is higher to a definite extent than in the past and denying that there is any imperceptible wear and tear on fixed assets in our nation, and, as a result, feeling that the level of our depreciation rates at present are not low and that there is no need to adjust them. The other is to advocate that we "introduce" into China the "rapid depreciation methods" from foreign nations, suggesting that our first step be to raise our nation's comprehensive industrial depreciation rates from 4.3 percent to 10 percent. Everyone knows that when the comprehensive depreciation rate is raised to 10 percent, the depreciation rate for equipment is about 15 percent, much higher than the depreciation rate levels in foreign countries. There is basically no way that this can happen. At present, there are 3 million machine tools in our nation and domestic production of machine tools is 200,000 pieces annually, which means that it would take 15 years to effect complete replacement of all pieces; in terms of the level of S&T development, it is impossible to achieve a single generational advance of all our nation's equipment in 6 or 7 years. This makes clear how far from reality is such a suggestion.

Some comrades advocate increasing depreciation rates dramatically because currently outstanding accounts for equipment renovation are a serious problem. At present, there truly are outstanding accounts on equipment renovation, but we cannot rely mainly on raising depreciation rates to solve this problem. Once depreciation rates are adjusted, they must serve a long-term function. Repaying debts is a short-term matter. After accounts are cleared, can we then lower depreciation rates? Clearly this is not feasible. The

outstanding accounts on equipment renovation are primarily the result of the past use of most depreciation funds to increase productive capacity, and the clearing of accounts should be handled through state planned funding increases, loans and the use of directed investments.

We feel that, based on our nation's present situation, we should raise the present depreciation rate for equipment from 5.5 percent to 6 or 7 percent during the Sixth 5-Year Plan and that the depreciation rate on housing should be appropriately adjusted down along with the rise in housing construction targets. Thus, the comprehensive depreciation should be raised from 4.3 percent to from 4.6 to 5 percent. This is more realistic.

9705

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BRIEFS

FIXED-ASSET LOANS REDUCED--The Sichuan Branch of the Construction Bank, based on the state's strict control of the investment in fixed assets, upheld the regulations on key construction projects and resolutely reduced loans on fixed assets. As of the first week of September, loans on fixed assets for the whole province had been reduced to 65 million yuan. In the beginning of this year, when the Sichuan branch set up the plan for extending credit, they did not take the loans on fixed assets carried forward from the previous year and incorporate them into this year's plan. The result is that scale of both loans for local capital construction and of loans for renewal and transformation exceeded the national plan by 49.2 percent and 32.6 percent, respectively. After July, the provincial branch decided to shut the valve on giving loans, and deferred all examination and approval for new loan projects, and stopped granting new trust loans. Moreover, it comprehensively cleared up renewal and transformation loan projects, and carried out a new plan. The branch bank took 38 million yuan outstanding from the previous year, and channeled it into this year's plan. It scaled down this year's targets, and afterward implemented individual plans for each region and project. It extended credit for loan projects having fixed targets, and stopped credit for those with no target, and for those surpassing the target, it provides credit for approved items. Moreover, the branch bank and concerned departments studied and then canceled or reduced a few loan projects, and reduced loans by 27.5 million yuan. Presently, the Construction Bank's loans on fixed assets have already been entirely brought within the permissible limits of the national plan. /Text/ /Beijing JINGJI RIBAO in Chinese 15 Sep 83 p 1/ 12437

CSO: 4006/41



## MINERAL RESOURCES

### BRIEFS

COBALT DEPOSIT FOUND--Team 937 of the Guangdong Metallurgy and Geology Prospecting Corp recently uncovered a rich cobalt mine in the Shiliu iron mine area of Changjiang Country in Hainan Island. This Shiliu Cobalt Mine is presently the single largest known cobalt deposit in our nation. Of the already discovered cobalt mines in our nation, this Shiliu Mine is the first primary cobalt deposit, the largest in size and with the highest quality minerals. The deposit is not deep, some even protruding from the surface, and extraction will be easy. Tests show that beneficiation and smelting efficiency is excellent and that nickle can be reclaimed. Cobalt is an important element in manufacturing alloys. Cobalt steel is stronger than tungsten steel, molybdenum steel and chromium steel. The manufacture of jet engines, guided missiles, drilling equipment and high-grade lathes cannot proceed without it. Cobalt and nickle can be made into permanent magnets to be used on hoists, magnetic separation units and radio parts. The radioisotopes of cobalt can be used to cure cancer. The discovery of the Shiliu Cobalt Mine has tremendous significance in terms of both developing Hainan and supporting our nation's four modernizations construction. [Text] Guangzhou GUANGZHOU RIBAO in Chinese 14 Sep 83 p 1] 9705

CSO: 4006/017

## DOMESTIC TRADE

### REN ZHONGLIN STRESSES MANAGEMENT OF FARM PRODUCE

Beijing JINGJI RIBAO in Chinese 11 Sep 83 p 1

/Article: "Ensure More Active Market in Post Autumn Peak Season; Strengthen the Guidance, Supervision and Management of Purchasing and Selling Activity of Farm Produce and Sideline Products; Ren Zhonglin /0017 0022 2651/ Stressed, Under the Prerequisite of Ensuring that Major State-run Commercial Channels Are Unblocked, the Vitalizing of Other Circulation Channels"

/Text/ Ren Zhonglin, the head of the National Industrial and Commercial Administrative Office, recently stated in a discussion with a reporter from this newspaper that industrial and commercial administrative departments on every level must strengthen control of the market during the post autumn peak season, and under the prerequisite of ensuring that state-run commercial channels are unblocked, vitalize other circulation channels, resolutely prevent such behavior as price hikes and rushing to purchase, ensure the completion of the state's purchasing plan for farm produce and sideline products, and continue to vitalize the market.

Ren Zhonglin said that at present the situation for farm produce and sideline products is very good and urban and rural markets are brisk. A few problems exist, however, in the purchasing and selling of farm produce and sideline products. Most importantly, in some areas the assigned procurement of a portion of farm produce and sideline products of the second category has not been implemented, and there is no signed contract for the purchase of a portion of farm produce and sideline products of the third category. Further, market management work has not kept pace, a few state-run and collective units and individual retailers have raised prices and rushed to purchase farm produce and sideline products in short supply, and have severely assaulted the national plan. Thus, the commercial and industrial administrative departments from each region must strengthen the guidance, supervision and management of the purchasing and selling activity of farm produce and sideline products.

Ren Zhonglin stressed that in strengthening the control of the peak season market, we must resolutely implement a plan that considers the planned economy as its key and market readjustment as its complement. It is strictly prohibited that any unit or individual go to a production region and rush-purchase any agricultural sideline products designated for state unified or allocated purchasing before the state purchases are completed. After completing the

centralized procurement and assigned procurement tasks, surplus farm produce and sideline products (excluding those which are covered by other State Council, provincial, municipal or autonomous region People's Governments) can be handled through many channels. However, they also must register with the industrial commercial administrative department at the place of production, and after gaining permission, they can make a purchase. State-run commerce and supply and marketing cooperatives must promote a contract system for the purchase of farm produce and sideline products of the third category. As soon as the contract is signed, it must be strictly abided by. Industrial and commercial administrative organs must carry out management through the contracts. They must deal severely with units or individuals who violate the market management regulations, raise prices and rush to purchase, harm the national plan or disrupt the market.

When discussing how to strengthen management of the activity of transporting goods for sale, Ren Zhonglin pointed out that the activity of transporting goods for sale solves the contradiction between production and marketing in expanding the sales of farm produce and sideline products; it vitalizes the urban and rural market, and this all has a positive effect. Therefore, we must continue to implement the spirit of the central government's relevant documents, and at the same time that we are promoting the activity of transporting goods for sale, we must adopt the following measures to strengthen management. 1) Control the issuing of permits; transporters of goods must apply for permits before the fact, and after checking, ratifying, and issuing of the permit, they can then operate. 2) Control purchasing processes: transporters, when purchasing goods, must go to the place of production and register with the industrial and commercial administrative department, and after receiving permission, can then make the purchase. 3) Grasp sales links; when transporters are transporting a large amount of farm produce and sideline products, they must go to the selling area and register with the industrial and commercial administrative department, and after receiving permission, can then sell the produce. Industrial and commercial administrative departments must do a good job in policy propaganda and education concerning this policy, and supervise the transporters' payment of taxes according to the law. Concerning the problem of on-the-spot reselling; we must distinguish between circumstances and carry out management. We must allow transporters to take a large amount of farm produce and sideline products into cities and towns and sell it all to that area's certified individual retailers to sell. We must firmly prevent such illegal behavior as blocking, rushing to purchase, fixing imports and exports, buying and selling by force, bullying and tyrannizing, driving up prices and harming the national plan; these all must be severely dealt with. We must firmly ban uncertified management, and attack profiteering and speculation.

Ren Zhonglin finally said that we must educate the broad masses of peasants in patriotism and policies, enable them to correctly handle the three relationships between the state, the collective and the individual, sell farm produce and sideline products to the state according to quality and volume, support state construction, and ensure market supply. Industrial and commercial administrative departments at every level must open up channels, provide market information for specialists, key users and transporters, do a good job in "making up for deficits and letting out surplus," and, at the same time as ensuring the completion of the state purchasing plan, cause the market to be even more brisk.

## DOMESTIC TRADE

### COMMERCIAL CIRCULATION SYSTEM EXAMINED

Beijing CAIMAO JINGJI [FINANCE, TRADE AND ECONOMICS] in Chinese No 8, 11 Aug 83 pp 39-43

[Discussion by Meng Zhenhu [1322 2128 5706]: "Problems Concerning the Restructuring of China's Commercial Circulation System"]

[Text] 1. The Objective Necessity of Restructuring the Commercial Circulation System

China's commercial circulation system is "basically a carry-over from the 1950s. At that time, carrying out this type of system was advantageous in restructuring and transforming privately run industry and commerce, and in controlling the supply of goods under the circumstances of insufficient goods." [Zhao Ziyang, "Concerning the Report on the Sixth 5-Year Plan"]. Restructuring the old commercial circulation system is not repudiating its historical role. However, because the commercial circulation implemented in the past was highly centralized, used administrative methods in management and had a unitary system of ownership by the entire people, it is now ill-suited to the needs of China's present stage of development in its social economy. In 20 years, great changes have taken place in China's social economy. If we continue to use the old commercial circulation system, we will obstruct the development of society and the economic construction of the state. Thus, we must restructure.

First, restructuring the old commercial circulation system is an objective requirement for further improving relationships in socialist production.

Commodity exchange relationships are an important component of socialist production relationships. Commercial circulation must suit the needs of production and distribution relationships in the realm of industrial and agricultural production. At present, China is in the process of carrying out a restructuring of industrial and agricultural management systems. Because of the restructuring, great changes have taken place and are in the process of occurring in production and distribution relationships in the fields of industry and agriculture. In industry, we have done away with a highly centralized production management system, and have implemented an economic responsibility system unifying responsibilities and authority; each industrial enterprise has a certain degree of autonomy in product production,

labor organization, distribution of revenue and other aspects. There has also been a great development in cooperation and alliances between enterprises. In agriculture, we have implemented various production responsibility systems linking production to remuneration. Originally we used production teams and production brigades as the basic production and distribution units; thus we have basically restructured so that households are the basic unit of organization. More than 170 million farm households have become contracting units for agricultural production and distribution units for agricultural revenue. New, specialized joint organizations are just appearing. The restructuring of the industrial and agricultural management system requires us to get rid of the old commercial circulation systems and establish a type of commodity exchange relationship that meets the needs of new production and distribution relationships and also a commercial circulation management system that suits these needs.

Secondly, restructuring the old commercial circulation system is a requirement for the development of social productive forces. Twenty years ago, the level of China's industrial and agricultural production was relatively backward. Not only was the volume of products produced small, but there were numerous gaps in production, and production departments were incomplete. Thus, in the market at that time, there was an insufficient supply in the volume of goods, and the varieties and specifications were simple. After 20 years of effort, we built a fairly complete social production system. China's industrial production now possesses a fairly abundant material and technical base. Currently, China is capable of producing industrial and agricultural products that in both variety and volume are much greater than before, and there have also been great improvements in quality. The development in social productive forces provided a greater and greater material base for the development of China's market. The level of income and purchasing power of the people of China has improved to a great extent these past few years. Due to continually increasing industrial and agricultural production, the situation of the supply of goods in China's market has improved greatly. There has already been a clear change from the old situation of goods in short supply. Especially after the 3d Plenum of the Central Committee, after the 11th CPC Congress, because we corrected "Leftist" errors in our economic work and carried out a readjustment, restructuring, reorganization and upgrading plan, China's national economy has taken the road to healthy development, China's agricultural production and industrial production of consumer goods for daily use have increased speedily, and heavy industrial development has also continued to advance through readjustment. Thus, it has compelled China's market to be even more brisk and flourishing, and the scale of commodity circulation is quickly expanding. Under this type of situation, the old commodity circulation system has created a clear contradiction between social productive forces and the development of commodity circulation. If we continue to use a commodity circulation system suited to a situation where supply does not meet the demand for goods and on top of this--use administrative measures to inflexibly regulate the time, volume and sales targets for producers, restricting the management of commercial enterprises, then we will be fettering the development of productive forces and hindering the development of commodity circulation.



Third, restructuring the old commercial circulation system is a requirement for both raising the level of commercial work and carrying out commercial construction. One drawback of the old commercial circulation system was that it did nothing to raise the level of commercial work, and was not advantageous to the construction of commerce itself. First, the singularity of the structure of the commercial system deprives China's internal commerce of mutually comparative and mutually competitive forces. Second, the union of government and business in organization and management, with power excessively concentrated in commercial administrative organs, causes commercial enterprises themselves to operate in a state of inertia, and be unable, based on a changing market, to flexibly organize commodity management. Third, the egalitarianism of both state control of revenue and expenditures and labor payments in financial management, cause enterprises to be unconcerned with the economic results of commercial management, and it is fettering the management initiative of many commercial cadres and workers.

## II. The Essential Content and Fundamental Principles of a Restructuring of the Commercial Circulation System

There are basically two aspects to the restructuring of the commercial circulation system: 1) a restructuring of the commercial system; 2) a restructuring of the commercial management system and institution.

A restructuring of the commercial institution must do away with the commercial system of a unitary system of ownership by the entire people, and must establish a commercial institution that conforms to the level of productive forces at China's present stage. Based on constitutional stipulations, for a long period into the future, China must implement a commercial institution that uses a state-run commercial system of ownership by the entire people as its leading factor, and also incorporates cooperative commercial under collective ownership and also individual commerce participating. Under this type of institution, state-run commerce, which is holding a leading position, incorporates both state-run commercial enterprises under the specialized commercial departments plus other state-run commercial enterprises under the management of other state departments. This type of commercial system conforms to the level of productive forces at China's present stage. Comrade Hu Yaobang in the 12th CPC Congress Report stated, "Because the level of development of China's productive forces, in sum, is relatively low, and also extremely imbalanced, for a long period of time, many different economic forms must simultaneously coexist." One goal in carrying out a restructuring of the commercial circulation system is that we must break up the unitary ownership system's commercial institutions, and gradually begin to create a commercial institution wherein many different economic forms of commerce coexist with the state-run commerce being the leading factor. Concerning the commercial management system institution the specific content of the restructuring is extremely complex and extensive. Its main points are: a restructuring of the commercial organizational structure and organizational management; a restructuring of the system of buying and selling goods and in the management system; a restructuring of commercial labor organizations and personnel management; a restructuring of commercial financial management and the revenue distribution system; a restructuring of the management system for commodity prices, etc. In the management system, we must earnestly solve the problem of

authority being excessively concentrated in commercial administrative organs, set up a management system that separates government from business, and give businesses a certain amount of autonomy in management and administration. In distribution, we must solve the equalitarianistic problems of state-controlled revenue and expenditures, "meat rotting in the pot," and making no distinction between good work or bad because everyone eats from the common pot. We must earnestly implement the principle of "to each according to his labor." Overcoming the lack of distinction between government and business, the concentration of authority, and equalitarianism in distribution is the core of readjusting the commercial management system and institution. The restructuring of the system and the restructuring of the institution supplement each other and are mutually connected. They constitute two aspects of the restructuring of the commercial circulation system. By simultaneously solving these two aspects of the problems, we can put China's commerce on the road to a healthy development.

In restructuring the commercial circulation system we must uphold the fundamental principles listed below.

First, it must comply with the requirements for the development of socialist production and preserve the principles beneficial to the development of productive forces.

Production and circulation are intimately related. Production determines circulation and creates an unlimited material base for circulation. Circulation is a medium of social reproduction. By means of commodity circulation, all production of special production departments can be joined together, and a higher level production process can be linked with a lower level production process within the same production department. Thus, commodity circulation is an important factor in the process of social reproduction. It is both embodied in the process of social reproduction and independent of each product's direct production process, and it influences the reproduction of the gross social product and of individual products. Commerce is a specialized department for organizing commodity circulation. How commerce organizes commodity circulation directly or indirectly restricts the reproduction of the gross social product and of all sorts of special products. In the restructuring of the commercial circulation system, based on the special characteristics of commodity circulation and commercial management, we must earnestly handle the restructuring of the relationships between expanding commodity circulation and developing commodity production, and cause the restructuring to comply with the need to expand circulation and develop production.

Second, we must suit the needs of the people's consumption and advantageously enhance and improve the standard of living of the people of China.

The aim of socialism is to meet the needs of the people's material and cultural livelihood. The management of the goods of socialist commerce must also comply with this aim. Thus, in the restructuring of the commercial circulation system, we must from beginning to end uphold the principle that restructuring works for the improvement of the people's standard of living. The formulation and implementation of any restructuring measure must not harm the interests of the people of China.

Third, the restructuring of the commercial circulation system must take as its principle of considering what is advantageous for implementation of the planned economy as primary and market readjustment as supplementary.

China's present economic stage is a socialist planned economy. Under a socialist economic system, each department in the national economy and each link in social reproduction develops in a planned proportionate way. However, the active course of the socialist economy is carried out in the form of commodity money circulation. Both connections between departments of the national economy and connections in all links of social reproduction cannot stray from commodity circulation. Thus, the socialist planned economy using public ownership of the means of production as a base, must still carry out an adjustment through the market. The planned economy as a key, a market adjustment as a supplement: this is an important principle in the development of China's socialist planned economy, and is also a fundamental principle in commodity circulation and commercial development. The restructuring of the commercial circulation system should not hinder the implementation of this policy, but must implement the policy of advantage to the planned economy as a key, market adjustment as a supplement.

Fourth, we must take account of the benefits to the state, enterprises and workers, and correctly implement the policy of distribution according to work.

The restructuring of the commercial circulation system must earnestly consider the economic benefits of commercial circulation enterprises, and ensure that enterprises, under regular management conditions, are able to receive their normal income. We must do away with the system carried out for a long time of state-controlled revenues and expenditures, and profits and losses all being borne by the state. We must enable competently managed enterprises to receive a good amount of income, so as to dispell the past phenomenon of equalitarianism and all eating from the common pot existing in enterprises and among workers. The distribution of an enterprise's income must take into account the benefits to the state, the enterprise and the workers. The enterprise's income is not distributed equally between these three, but the state receives a larger portion, the enterprise receives a medium portion, and the workers receive a smaller portion. The portion distributed to the workers must be implemented according to the policy of distribution according to labor. This enables workers with good work and large contributions to receive relatively more income, and so encourages advancement and arouses the enthusiasm of the workers.

Fifth, we must uphold the principle of separating government and business.

In the restructuring of the commercial circulation system, according to the principle of separating government and business, we must separate, in government, the commercial organizations and commercial enterprises, and enable enterprises to truly restore their commercial nature. Commercially organizations at all levels of government must truly act as a component of state power, carry out their allotted government authority functions, and in regards to the commercial work within its purview at its level, strengthen leadership of programs, policies and plans, supervise and coordinate the commodity management



of each commercial system, and, except when the commercial enterprise goes violates or harms the state's plans and policies, not interfere in the enterprise's specific management and administration. Each commercial enterprise must bear the economic, social and legal responsibility for all its management activity, enabling the enterprises to operate normally as economic entities.

### III. Correctly Recognize the Problems that Appear in the Present Restructuring

With the gradual penetration of the restructuring of the commercial circulation system, many problems are also gradually being revealed. Of these problems, some are problems in understanding, others are problems in actual work. Of these, we can only discuss the problems in understanding.

First, concerning the problem of creating many different forms of economic commerce while still keeping state-run commerce as the leading factor. This is a problem of developing the collective commerce individual commerce while restructuring the commercial system. Based on the level of the development of China's productive forces, for a long period here after, China must organize a commercial system incorporating state-run, collective and individual economic forms. This has already been theoretically and legally solved. Moreover, this has already been clearly recorded in the documents and constitution of the 12th CPC Congress. Most comrades understand this. These past few years, in order to break through the commercial system of the unitary system of ownership by the whole people, and create commercial systems with many types of coexisting economic forms, each area of the country has done a great deal of work and achieved great successes.

However, a few problems exist in this type of restructuring of China's commercial system, both in understanding and in practice. Concerning understanding, currently, the most important problem is the feeling that the restructuring of China's commercial system has basically been completed, and that the development of collective and individual commerce has reached its "saturation state," and should not be developed further. Some comrades even go to the point of complaining that at present, state-run commerce is situated in a collective and individual "encirclement", and "the overall situation is very good, but business is hard to transact." Has collective and individual commerce already reached a saturation state? According to statistical data, of the nation's commercial retail sales in 1981, the collective system of ownership accounted for 8.9 percent, and individual commerce only constituted 1.1 percent. Of the nation's total volume of the retail catering industry, collective catering industry accounted for 1.3 percent and individual catering industry only 0.4 percent. This is a quantitative idea of the so-called "saturation state." Concerning this quantitative concept, neither from commerce of the collective system of ownership nor from the commerce of the individual system of ownership can we reach the conclusion that a "saturation state" exists. China has a large population, vast territory, and a low level of economic development which in addition is not balanced. These few special characteristics have not only determined that we must continue to develop state-run commerce and maintain the leading position of state-run commerce, but they have also determined that we must still vigorously develop collective commerce and suitably develop individual commerce. If we only depend on state-run

commerce we will be unable to bear the commodity circulation work of such a large country as China. To be sure, in the course of restructuring, a few illegal phenomena indeed appear, such as individual commerce engaging in speculation and profiteering. To solve this, we can only improve the legal system and strengthen management. We should not take this as a reason for restructuring the development of individual commerce. We must free ourselves from our long-standing traditional habit of monopolized management, and be freed from regarding individual commerce as "capitalist" and "Leftist thinking." We also must do good work in creating a commercial system with many different economic forms coexisting while considering state-run commerce as a leading factor.

Second, on the problem of whether restructuring will weaken the leading position of state-run commerce. This problem is raised in light of the following two circumstances. The first circumstance is the development of collective and individual commerce. The second circumstance is the self-production and self-sales of industrial products, restructuring the buying and selling system of commodities and developing agricultural commerce, industrial commerce, and agricultural industrial commerce. These two circumstances joined together cause a few comrades to feel that the leading position of state-run commerce is facing problems.

In the retail turnover in the nation's commerce and catering industry, the problem concerning whether collective and individual economies, which constitute 19 percent of the total, are able to weaken state-run commerce has already been made clear above. At present the problem is, under new circumstances, how state-run commerce can enthusiastically give play to its leading role? In the relationships between state-run, collective and individual commerce, there is the "leading" and there is the "led". If there is only state-run commerce, and no collective or individual commerce, then there is no leading position of state-run commerce to talk about. Therefore, at the same time we are stressing the leading position of state-run commerce, we are also implying that we must develop individual and collective commerce which cannot hold a leading position. These are two aspects in the future development of China's commerce.

Are restructuring the system of purchasing and selling goods, allowing producers to sell their own products and developing different forms of joint management able to weaken the leading position of state-run commerce? In answering this question, we must make three points clear. 1. What do we recognize as self-sales by producers? 2. How do we recognize "commerce" in different types of joint-run organizations? 3. How do we recognize state-run commerce as holding a leading position?

One theory says that carrying out self-sales by producers is a type of "retrogression" in the division of labor between commerce and production. Is this retrogression theory, after all, correct? Sale of their own products by producers is an objective process in production activity. This process points to producers (enterprises) who sell those products that they themselves produce. So long as the products are commodities, the first sale of the products is always carried out by the producers themselves. No person is able to change this objective process of production activity. For any product,

the state carries out a policy of centralized procurement, assigned procurement and a system for exclusive selling rights, and is also unable to change this objective process of product movement. The first-time sale of products is, as before, carried out by producers. In the process of the restructuring of the economic system, the state, in light of its past carrying out of centralized procurement, assigned procurement and exclusive selling rights of commodities, considers "self-sale by producers" to be a restructuring measure to be proposed and put into effect, and also must not alter the objective process of producers selling what they themselves produce. Carrying out the changes in "self-sales by producers" is merely the producers (enterprises) having a certain amount of authority to act on their own in the product's sales volume, time, place and targets. When carrying out centralized and assigned procurement and exclusive selling rights, the producers (enterprises) can only, according to the state's stipulated time, take a certain amount of products and sell them to a designated commercial enterprise. After implementing "self-sale by producers" the producers (enterprises) in the sales of products have had a certain amount of freedom in choosing targets, time, place and volume of sales. Thus self-sales by producers seen as the objective nature of production activity is different from self-sales by producers seen as a type of policy. We should not mix up these two. Self-sales by producers act as a policy in the restructuring of the commodity sales system, it allows producers to be fairly free in selecting targets for product sales, and production enterprises can both continue to sell products to commercial enterprises and directly to the consumer. Based on our inquiry concerning a few production enterprises' product sales, in enterprises that are freely selling products, many are still selling to commercial enterprises, and compared to the situation before the policy of self-sale by producers was carried out, the only difference is that in the past, the production enterprises could only sell products to commercial enterprises assigned by the state, and at present, production enterprises can sell products to other commercial enterprises. This type of change of a production enterprise's selling products to this or that commercial enterprise will definitely not disturb the division of labor between production and commerce. After carrying out the policy of self-sale by producer, a few production enterprises actually sold a portion of their products directly to consumers. However, according to the state's statistical data, this portion is not very large. In 1981, the goods that industrial enterprises sold directly to consumers only constituted 8 percent of the total retail turnover of social goods. This also shows that implementation of sale by producers did not lead to a combining of production and commerce. Also, the division of labor between production and commerce is, as always, a form of social division of labor.

Connected with the restructuring of the commodity purchasing and selling system and self-sale by producers and in the restructuring of the economic system, there have been many changes in the forms of China's economic organization. One change is the appearance of industrial-commercial, agricultural-commercial, and industrial-agricultural-commercial joint enterprise organizations. Can the appearance of these organizations harm the division of labor between production and commerce? We must have a proper understanding of this question. The joint enterprise organizations currently appearing in China, speaking of their overall character, without a doubt combine production and

commerce. However, this combining does not imply the joining of production and commercial activities. In the internal organizational structure of these joint enterprises, the production enterprise and the commercial enterprise, the production activity and the commerce still maintain their independent natures. Why else would they be called "joint"? Based on the analysis of data, currently there are roughly three different situations for "commercial" enterprises in joint enterprise organizations. The first type is a commercial organization that have independent funds, fixed personnel, independent computing of profits and losses, a portion of income is given to joint organizations according to a stipulated proportion, the goods they handle are produced by their own production enterprises, and they also purchase goods from other enterprises. The second other than handling only the goods produced by their own joint organization is production unit, it is similar to the first commercial organization in all other respects. The third type has relatively fixed personnel, they perform the service of promoting their own units' products, and they also have measures for settling accounts with their own organization's production unit. However, accounting, profits and losses and income utilization is carried out by the joint organization in a unified manner. Some joint enterprise organizations are established using production enterprises as the key element, and are led by production departments; some use commercial enterprises as the key and are led by commercial departments. No matter which department the joint enterprise organization is subordinate to, the aforementioned two types of commercial organizations in joint commercial organization, both possess the nature of being independent commercial enterprises. Only the third type cannot be said to be a completely independent commercial enterprise, but is a product sales organization of a production enterprise. Thus, we should not feel that the appearance of a joint-run enterprise organization is able to disturb the division of labor between production and commerce. In fact, in joint enterprise organizations, production and commercial enterprises still exist independently.

From this we know that in self-sales by producers and in joint enterprise organization models, we are not only unable to reach a conclusion of "retrogressive" division of labor between production and commerce, but we are also unable to reach a conclusion that the leading position of state-run commerce is necessarily weak. This is because the problem of the leading position of state-run commerce asks what type of position does the economy of ownership by the entire people hold in commodity circulation? Self-sale by producers and joint enterprise organizations can be used in economies of any type of ownership. We must not force together the problems of self-sales by producers and the organization of joint enterprises with the problem of the leading position of state-run commerce.

It must also be pointed out that the constitution in stipulating the leading position of state-run commerce does not only point to commercial enterprises of the central government's systems, but also points to all state-run commercial enterprises. These state-run commercial enterprises are categorized as under the leadership of departments of state power. For example, the Ministry of Commerce, the Ministry of Foreign Economic Relations and Trade, the Main Office of Goods and Materials, the Ministry of Agriculture, Animal Husbandry and Fishery, the Ministry of Forestry, the Ministry of Culture, the Ministry of Public Health, and each ministry of industry, all according to the division of labor, lead the great state-run commercial system for the management of all types of products. Thus we are unable to take state-run commerce which holds a leading position and one-sidedly say it is commerce led by the central government's Ministry of Commerce.



## DOMESTIC TRADE

### PRODUCTION, MARKETING OF SMALL COMMODITIES URGED

Beijing JINGJI RIBAO in Chinese 15 Sep 83 p 1

/Article by staff commentator: "Further Vitalizing the Production and Marketing of Small Commodities"/

/Text/ Gradually lifting restrictions on the prices of small commodities in a planned way, realizing a market adjustment and competitive pressure on enterprises all promote lowering the cost of production, reducing managerial layers and producing small profits with quick turnover.

Under the present circumstances, the first group of 160 small commodities with lifted price restrictions is too small in scope to effect a reform in the circulation system, to further develop the production of small commodities and to vitalize the demand for circulation of small commodities. Moreover, there are a few places that have not specifically implemented this reform in the grassroots enterprises, and in fact have not lifted restrictions. In some places, although the power to fix prices is given to the enterprises, there is no reform in the methods of fixing prices, and basically there is not total free rein. Currently, the state has also determined, under the guidance of national policy, to implement a market adjustment for 350 small commodities, and have enterprises fix the prices. This is an important measure that advances the production of small commodities and further vitalizes the circulation of small commodities. We must pay attention to carrying this out where we did not do work in lifting price restrictions on commodities of the first group, and we must combine the second group of commodities with lifted price restriction, and organize all of the work.

The setting of prices by enterprises is not only not the same as fixed prices unified by the state, it is also not the same as the freedom to set prices at country fair trade. It is a price that is fairly flexible under national policies and a guiding plan. The profit margin of small commodities industries compared to large commodities industries usually can be a little more relaxed and a little higher; regional price differences and wholesale and retail price differences compared to large commodities industries are a little more relaxed and a little more flexible. These few policies and principles will be a guiding principle for future work in making prices for small commodities.

After restrictions on prices of small commodities are further lifted, some varieties, due to a decrease in price after a long time, or because they are

affected by a rise in the cost of raw and processed materials and a rise in the cost of production, could possibly rise in price. However, there need only be a development in production, and prices can then stabilize. When lifting restrictions of the prices of many products, each area must prudently adopt methods, and certainly must achieve a lifting of restrictions step by step and in a planned way.

Implementing a market regulation of production and sales for small commodities, and the fixing of prices by enterprises are important reforms in the management system of commodity prices. In the course of reform, we must not only not be full of worries and be unable to act with freedom, we also must not refuse to have anything more to do with the matter and abandon our leadership. With the gradual lifting of restrictions on prices of small commodities, the production and management industrial and commercial enterprises of small commodities must further strengthen their sense of duty, strive hard to study the policies of commodity prices and competently utilize their power to fix prices. We must abide by the policies of commodity prices, receive the supervision and examination of pricing departments, and cause the prices of small commodities to actually have an effect on guiding production, promoting circulation and regulating supply and demand.

12437

CSO: 4006/41



## COLLECTIVE LEADERSHIP OF SUPPLY, MARKETING CO-OPS URGED

Guangzhou GUANGZHOU RIBAO in Chinese 15 Sep 83 p 4

[Article by Liang Yuling [2733 3558 7227]: "Does Changing Supply and Marketing Cooperatives into Cooperative Commercial Enterprises Meet the Needs of Rural Economic Development?"]

[Text] Changing supply and marketing cooperatives owned by all the people into cooperative business enterprises meets the objective needs for change in the rural economic structure and hastening new rural economic integration.

Since the 3d Plenary Session of the 11th CPC Central Committee, there have been profound changes in our nation's rural areas. Agricultural production has carried out various forms of integrated contract responsibility systems, family members of specialized households and key households have sprung up, hastening a change in our nation's agriculture from self-sufficient and semi-self-sufficient production to commodity production and from traditional to modern agriculture. Along with the development of specialized households and key households, there has come an increasingly specific division of social labor and producers have developed a broader and more intimate link with each aspect of society. At the same time, this has created a need to solve the problems of funds, resources, technology and marketing, produced a need for cooperation and new economic integration and brought about a need for a cooperative commercial enterprise organization which closely unites with peasant production and management and serves production. This task is best suited to be handled by supply and marketing cooperatives following structural reform. Over more than 30 years, the nation's supply and marketing cooperative system has developed into an immensely strong rural commercial organization using more than 20 billion yuan of its own funds, encompassing more than 50,000 independent accounting units, with 4 million workers and broad connections with over 800 million peasants. In the new rural economic integration, there is an objective demand that supply and marketing cooperatives become a bond hastening rural economic integration, becoming overall service centers for supply and marketing, processing, storage, transport and technology. Through various forms of the unified management of the production, processing and purchase and sales links, we must see to it that management of supply and marketing cooperatives and the interests of the peasants are linked, that circulation and production are linked and that peasant enthusiasm for developing commodity production and the needs of the market and of the state plan are

linked, leading the peasants onto the socialist track. We can see from this that changing supply and marketing cooperatives into cooperative commercial enterprises is an objective requirement of rural economic development and a matter in keeping with historical trends.

In terms of the evolving history of the structure of supply and marketing cooperatives, changing them into cooperative commercial enterprises better suits the present level of development of our nation's rural productive forces. At the beginning of the fifties, the supply and marketing cooperative was a cooperative economic organization formed by pooling peasant resources and enjoying state support. It was "one body with two tasks," shouldering each procurement task assigned by the state, while also marketing products for the peasants, supplying the means of production and subsistence, and offering various services with very flexible management; it was the peasant masses' own commercial organization, the peasants being both its customers and its stockholders, carrying out democratic management by a peasant-elected board of directors and board of inspectors, and existing in an interdependent relationship with the peasants as between water and fish. The supply and marketing cooperatives were changed into state-run commercial enterprises after 1958, switched back to cooperative commercial enterprises in 1962, returned to state-run status in 1970, again returned to cooperative status in 1975 and once again switched to public ownership in 1978. When the cooperatives were turned into state-run enterprises, they lost their mass organizational character and the democratic nature and the flexibility of management became "bureaucrat-merchant." The cadres of the supply and marketing cooperatives followed orders from higher levels, the workers were assigned by the state and procurement tasks were sent down from the departments in charge, and there was little peasant oversight, the opinions of the peasants were rarely heeded and there was little thought given to the interests of the peasants. The peasants had a lot of ideas about this and the calls for restoring the cooperative commercial enterprises were loud. Since the 3d Plenary Session of the 11th Party Central Committee, there have been new developments in agricultural product production, with numerous new conditions, problems and needs arising in agricultural product circulation. But, the supply and marketing cooperatives which are the main channel for agricultural product circulation nevertheless operated in the form of state-run enterprises, falling short of satisfying the needs of the peasants in developing commercial product production. Currently, rural buying and selling is difficult and circulation is stalled, and the fact that the supply and marketing system is not suited to rural economic development is an important reason. Practice has proven that the transition of supply and marketing cooperatives to publicly owned commercial enterprises exceeds the level of the development of the rural productive forces of our nation at present. Only by restoring them to cooperative enterprises can they perform the function of hastening agricultural production.

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## DOMESTIC TRADE

### BRIEFS

CONSUMER GOODS SALES UP--With the economy developing daily, the demand for articles of daily use by the people of Yunnan Province is continually increasing. In the first half of the year, the province's consumer retail sales totaled 638 million yuan, an 8.3 percent increase compared to the total from the same period last year of 590 million yuan. Cigarette sales totaled 70,600 cartons, a 2.1 percent increase over the same period last year; sales of alcoholic beverages totaled 29,000 tons, an 18.6 percent increase; sale sales amounted to 84,000 tons, a 33.8 percent increase; tea sales totaled 36,000 dan, a 2.7 percent increase; sales of manufactured goods of daily use increased greatly and many name-brand products were constantly in great demand; 60,700 bicycles were sold, a 108.4 percent increase; television sales totaled 2,742 sets, a 136.2 percent increase; 29,000 watches were sold, a 24.7 percent increase; and 100,000 transistor radios were sold, an 18.9 percent increase. /Text/  
/Kunming YUNNAN WUZI SHICHANG in Chinese 16 Sep 83 p 3/ 12437

CSO: 4006/43

DISCUSSION OF FOREIGN, DOMESTIC TRADE CONTRADICTIONS

Beijing CAIMAO JINGJI [FINANCE, TRADE AND ECONOMICS] in Chinese No 7, 11 Jul 83  
pp 22-25

[Article by Yang Zhongguang [2799 6850 0342] and Wang Bing [2769 0393] of the  
Finance, Trade, and Materials Economic Institute of the Chinese Academy of  
Social Sciences: "Handling Contradictions Between Domestic and Export  
Marketing"]

[Text] 1. Manifestations and Factors of the Contradictions Between Domestic  
and Export Marketing

For a long time, there have been contradictions between domestic and foreign marketing, but the form they take and the degree of severity vary according to the time, place and commodity. Sometimes the contradictions are merely warm and at other times quite fierce. Generally speaking, when the domestic supply of consumer products cannot meet the demand, there will be a shortage of consumer products in both domestic and export sales, so that there is a relatively sharp contradiction in the competition between domestic commerce and the foreign trade departments for commodity supplies. At such times, maintaining or expanding exports would certainly exacerbate the shortage of domestic supplies, so that some citizens would be unable to make purchases. On the other hand, if domestic supplies are increased, then it will be necessary to reduce exports, which will then decrease foreign exchange revenues and influence importation of necessities and other international payments. In actuality, the result always would be a concurrent decline both in the volume of social retail sales and in the volume of exports.

When social purchasing power and the supply of consumer goods are in balance or supply exceeds demand, and when there are adequate commodity supplies, although the contradiction between domestic and export sales still exists, it is not at all manifested in the total number or great majority of commodities, but rather is collectively reflected in a few commodities which are in great demand. These commodities can roughly be divided into two categories: one category consists of marketable commodities and new products with new style and appearance, superior quality and of original design; the other category consists of commodities which are made from limited resources or which have limited production capabilities, especially some agricultural, sideline, local and special products. These contradictions not only will exist for a long time, as consumer products daily increase and marketplaces continue to flourish and appear, they will even become a major form of expressing these contradictions.

The factors which produce the contradictions between domestic and export sales of consumer goods can be summed up in four areas: 1) An imbalance in overall quantities in supply and demand, or an imbalance in product assortment. 2) The consumer goods production structure is unable to keep up with changes in the people's consumption structure and with the export commodity structure. At present there still are many commodities for which the supply does not satisfy the demand, and one of the reasons is that some of the commodities produced are of low quality and outdated style, so that they neither suit export sales demands nor find favor with domestic consumers, which creates overstocks, while, on the other hand, production increases cannot be made for commodities in great demand in both domestic and foreign trade. 3) There is a lack of linkage between production plans and planning of domestic and foreign trade purchases, and they both suffer from a lack of planning of a rigorous nature. If prices are raised for commodities in short supply or which sell well, people will rush to buy them while unmarketable commodities cannot be sold; there is excessive division of labor in domestic and foreign trade, so that many commodities are sold out domestically and have foreign trade overstocks or they have domestic overstocks and no goods for foreign trade, so that opportunities are lost and the ability to honor contracts is influenced. For a portion of the export commodities purchased by domestic businesses no planning is done or contracts carried out, so that the best products are kept while seconds are turned over, large amounts are retained while only small amounts are turned over, thus bringing about contradictions between domestic and foreign trade; the transfer prices are unreasonable and foreign trade purchase prices cannot change in accordance with changes made in export prices. There are no sincere efforts to implement the policy of determining price according to quality, with high prices for superior quality, but rather there is an emphasis on keeping equality with domestic prices (the domestic sales price). 4) For any given locale, if there is an imbalance between purchases of foreign trade consumer goods and the quantity of consumer goods supplies for that locale, then even if a large amount of foreign trade purchases power in that locale, and with the earned foreign exchange being turned over to the central authorities there definitely will be increased pressures on the marketplace in that locale.

## II. The Essence of the Contradictions Between Domestic and Foreign Marketing

Commodity sales are a necessary condition for social reproduction, the domestic marketplace and the international marketplace have the same function as both realize commodity values and, moreover, they both fall into the category of commodity circulation, because the international marketplace is merely an extension and expansion of the domestic marketplace. However, in the final analysis, there are differences between the domestic and international marketplaces, and it precisely is these differences which form the basis of the contradictions between domestic and foreign marketing. The following is an analysis from the foreign trade perspective.

First, the two have different targets for exchange. Because different countries have different geological locations, natural conditions, resource situations, population structures, social systems, levels of economic development, technical standards and consumer habits, consumers therefore have extremely complex needs which, moreover, frequently change. Export commodities must suit the constantly



changing desires and needs of the importing nations and locales. In comparison with products for domestic sale there are differences in production technology, technological standards and quality requirements.

Second, the realization of value differs. In the international marketplace, the exchange of commodities is not conducted according to the different value of each country, but is rather conducted according to the international value, which is the amount of socially necessary labor on an international scale. This is simultaneously subjected to the control, manipulation and influences of monopolistic organization and monopolistic pricing. In this process, not only does the law of value play a full role, moreover, some laws of capitalist economics, such as the law of surplus value, the law of average profits, the law of competition and the law of monopoly maintain a dominant, controlling position. When our consumer products are placed on the international marketplace they cannot avoid being controlled and influenced by these laws.

Third, on the international and domestic marketplaces, consumer products have different competitors and different degrees of severity in competition, and there are even greater differences in the area of economic benefits.

Finally, there are different methods, procedures and processes for trading consumer products on the domestic and international marketplaces.

In addition to the above-mentioned differences, there also are some differences in the economic results and social consequences of domestic and foreign trade of consumer goods. Obviously, domestic sales of consumer goods can directly satisfy the standard of living needs of a nation's inhabitants and realize a portion of the inhabitants' purchasing power, while foreign sales can only satisfy consumer needs in other countries. As far as our country itself is concerned, the direct goal is to obtain foreign exchange to use for importing products necessary to national economic construction and the people's standard of living.

In the past, under the influences of "leftist" ideology, the economic structure placed inordinate emphasis on heavy industry, neglected light industry, agriculture was weak, accumulation was excessive and there was a loss of proportion. At the same time, export products consisted primarily of certain light industry commodities and agricultural sideline products which could supply domestic consumption, while most imported products were the means of production, such as complete sets of equipment and mechanical products. In this way, engaging in foreign trade increased the loss of proportion among agriculture, light industry and heavy industry, and the imbalance between accumulation and consumption became greater, thus creating a contradiction between domestic and foreign marketing. In the 26 years between 1953 and 1978, China's imports totaled 190.12 billion yuan and of this the means of production constituted 154.81 billion yuan, or 81.43 percent, and consumer products constituted 35.31 billion yuan, or 18.57 percent. For the same period, exports totaled 199.73 billion yuan, with industrial and mining products constituting 61.58 billion yuan, or 30.83 percent, and agricultural products and agricultural processing products (primarily the means of subsistence) constituting 138.15 billion yuan, or 69.17 percent. There was a difference of 102.84 billion yuan between the exported and imported consumer



products, which is to say that engaging in importing and exporting annually reduced the amount of commodities that could be supplied to the domestic marketplace at an average annual rate of 3.95 billion yuan, which was 5.85 percent of the yearly average social retail sales of 67.518 /billion/ yuan for that same period. Taking 1960, which was a relatively outstanding year, as an example, exports of agricultural sideline products and other processed goods was 4.64 billion yuan, while imports of consumer goods was only 0.28 billion yuan, a difference of 4.36 billion yuan, which was 7.32 percent of the total social retail sales of 59.54 billion yuan. In order to accelerate socialist construction in the early period of national construction it was both entirely necessary and quite unavoidable to trade such consumer goods as agricultural sideline products in exchange for the means of production, such as mechanical equipment. However, an objective analysis shows that these conditions undoubtedly were a factor in the shortage of domestic consumer goods supplies and in the contradictions between domestic and foreign trade.

To summarize the above, not only do domestic and foreign sales of consumer goods have a number of different special features, the contradictions between them reflect the relationships between accumulation and consumption, and economic structures as well as between the two major categories.

### III. Overall Planning and All-Round Considerations for Correctly Handling the Contradictions Between Domestic and Foreign Marketing

The contradictions between foreign and domestic sales of consumer goods touches upon a series of internal economic relationships which are subject to the long-term and immediate interests of the people, and therefore it is necessary to be cautious in handling the contradictions between domestic and foreign sales. Regarding this, the party and the state have formulated a series of guiding principles and major policies. One set of policies concerning China's development of foreign trade is to "take self-reliance as primary and use foreign trade as a supplement; take the domestic marketplace as primary and supplement it with the foreign marketplace." Without question, this also is an important guiding principle for handling the contradictions between domestic and foreign sales of consumer goods. China is a large country with a population of 1 billion people and the domestic marketplace is limitless. China's production of consumer goods is primarily intended to satisfy the material and cultural needs of the broad masses of the people--and the capacity of our domestic marketplace cannot be matched by any other nation--and this is the most important precondition for achieving social reproduction. To overlook the domestic marketplace or vaguely point out that "domestic sales are subordinate to foreign sales" is incorrect or, at least, is incomplete. At the same time, the "foreign marketplace is extremely important and cannot be taken lightly or allowed to slacken." Taking the domestic marketplace as primary and the foreign marketplace as supplementary does not at all exclude us from placing the foreign marketplace in a primary position for certain commodities, certain areas and certain enterprises. For example, certain handicrafts ought to be primarily for export, so the primary market is foreign rather than domestic. Some commodities are necessary for both the domestic and international marketplaces, but in order to generate more foreign exchange to use in acquiring the advanced technology and machinery and equipment urgently needed for economic construction it is necessary to make

and price reductions in domestic consumption in order to extract the portion needed for export. This serves the people's long-term interests. As early as the 1950's, the central leadership comrades repeatedly pointed out: "There must be only limited exports of all major goods which have an important relationship to the state plan and the people's standard of living and which are in short supply in the domestic marketplace; for example, various important grains and oils for the people's food and clothing. Certain commodities are for the people's standard of living, but they are not a critical part of the people's consumer needs, so that appropriate domestic sales reductions can be used to supply export demands; there are some commodities which are not now necessary for the standard of living of the broad masses of the people, such as fruit, tea leaves and assorted local products, so they should be given export priority, with the surplus then sold on the domestic marketplace. Only in this way can we guarantee necessary exports in order to carry out exchanges for the industrial equipment essential for national construction." These directives not only played an important role at the time in both guaranteeing the basic needs of the people and providing support for exports, moreover they became the basic policy for our correct handling of the contradictions between domestic and foreign sales of consumer goods, and they still carry out this role today. However, because of rapid changes throughout the entire national economy, in the people's living standards and in the domestic and foreign marketplaces, especially since the 3rd Plenum of the 11th CPC Congress, and because the entire economic structure emphasized consumer goods production there were increasingly adequate sources of marketplace goods to carry out the policy of opening to the outside so that the volume of exports quickly expanded and produced new contradictions between domestic and foreign sales. Consequently, we must proceed according to the new conditions in correctly handling the relationships between the two.

1. Expand consumer goods production according to the requirements of the fundamental laws of socialist economics to attain a balance in supply and demand. The goal of socialist production is to satisfy the people's daily increasing material and cultural needs. Under the conditions of a commodity economy, these goals are primarily realized through the provision of adequate supplies of consumer goods to urban and rural inhabitants. Following economic development, there will be increases in industrial and agricultural production and increases in the inhabitants' economic income, and there will be a need to place even more products on the domestic marketplace. Only when there are goods in both abundance and great variety will the needs of the broad inhabitants be satisfied and will there possibly be fundamental easing and resolution of the contradictions between domestic and foreign sales. At that time, even if supplies of certain individual commodities does not meet the demand and there are various contradictions between domestic and foreign trade, it would then also be possible to ease and resolve the contradictions by developing new products, inducing new consumer preferences, making price adjustments or other such techniques in order to shift and change the inhabitants' purchasing power. Therefore, according to the requirements of socialist fundamental economic laws, the basis for resolving the contradictions between domestic and foreign sales is to adjust the economic structure, establish a rational proportional relationship between agriculture, light industry and heavy industry, and energetically develop consumer goods production.

Basic economic laws are not only manifested in the overall planning and arrangements of the national economy, they are also manifested in the production and circulation of each variety and type of product. Whether for domestic sales or exports, each type of product must seek to be marketable, have superior quality and new style, and, at the same time, avenues of circulation should be opened to enable commodities to reach consumers as quickly as possible. Without question, there certainly are great differences in the level of purchasing power, consumption habits and preferences of domestic and foreign consumers, but they are alike in their demand for inexpensive, quality goods which suit their needs. In the past, export products had to have high quality, a complete selection and new style; this is entirely correct, and in the future we must continually persevere and exert ourselves in this area. In the area of domestic sales, for a long time, insufficient attention was paid to commodity quality and variety, and many items were poorly made, so that consumers developed the attitude that "domestic sales commodities can't compare with export commodities" and "imported goods are better than Chinese-built products." If we are to change this attitude we must exert ourselves in terms of quality, variety, style and packaging in order to satisfy the people's daily increasing needs.

Since both the domestic and international marketplaces are factors in realizing expanded reproduction of commodities, the commodity standards for domestic and international consumption will gradually merge. Consequently, as far as many commodities are concerned, there cannot be any complete separation of domestic and foreign sales, what can be exported should be and what cannot be exported should be sold domestically, and there ought to be unification of planning and management. There should be an end to the phenomena of the domestic marketplaces being out of stock while the foreign trade warehouses have overstocks, and an end to business overstocks while foreign trade is out of stock. There should be an effort to accelerate commodity circulation and capital turnover and achieve realization of value.

2. Arrange and handle the relationship between domestic and foreign sales on the basis of overall economic results. The purpose of commodity sales is to realize the value and to obtain certain profits. Consequently, what price to sell for, whether or not a profit can be obtained and the size of the profit are of utmost importance to the commodity producers and ought to be a major basis and standard in determining whether a commodity should be sold domestically or exported. We believe that in addition to adjusting surpluses and shortages and helping to supply each other's needs, an even more important goal of foreign trade is to conserve the quantity of social labor. For these reasons, in order to establish a reasonable export commodity structure the first step is to organize commodity exports for a high rate of return with a low cost ratio. Except for the people's basic necessities, such as grain, cotton and oil, when the remaining commodities are needed for both domestic and foreign trade, the most important standard for determining which is primary and which is secondary in allocating the supply of goods is the level of the profit ratios and the size of the economic benefits. When domestic sales can produce relatively high economic benefits, domestic sales are then given priority, and when exports can produce relatively high income, exports then ought to be given priority. If domestic stocks are depleted and exports are suffering high losses, or if foreign sales produce great profits while domestic sales have small or no profits, then restrictions

on exports and other such conditions ought to be changed or corrected. Of course, the calculation of economic benefits, especially the economic benefits of foreign trade, are a very complex task and more analysis and research should be performed on this subject.

### 3. Utilize the Law of Value, Strengthen Price Management

Because commodities for foreign and domestic sales have different qualitative standards and demands, there then will be differences in the use and selection of materials, the production technology and technological processes, and so there will also be different productions costs; furthermore, transactions of export commodities on the international marketplace are concluded at world prices. Consequently, the domestic selling price for export commodities should differ from domestically sold commodities of the same type, with stipulated higher prices. A price difference for quality should reflect the different production costs. There are some commodities for which the regulated price is unreasonable, and this not only generates or intensifies the contradictions between domestic and foreign sales, it moreover directly influences economic benefits and production enthusiasm. At the same time, it lowers the international marketplace selling price, reduces foreign exchange income and even creates economic losses.

On the one hand, regulating a relatively high selling price in response to the relatively high production costs for superior quality products compensates for the producer's added expenses. Moreover, obtaining certain economic benefits in order to stimulate production and exports and raising the international selling price in order to attain the best possible economic benefits simultaneously help to ease the contradictions between domestic and foreign sales. On the other hand, where production costs are basically the same and where product quality is the same, it is also necessary to regulate a similar selling price; there cannot be different prices for domestic and foreign sales and the use of prices to compete for supply sources. That would harm both production and domestic and foreign sales as well as harm the correct handling of the relationship between the two.

In short, consumer goods pricing must be carried out entirely according to quality, with high prices for superior quality, complete consideration for all features of domestic and foreign trade and appropriate handling of their relationship. This will be beneficial in easing and resolving the contradictions rather than exacerbating them.

### 4. Reform of the Economic Management System

In domestic and foreign trade, some contradictions in the area of consumer goods management arise because of unreasonable systems and because of excessive flaws in the circulation links. For example, certain export commodities must pass through many domestic commerce circulation links, and after they are turned over to the foreign trade departments for export each time they pass a circulation link there is a processing fee to be paid and tax revenues must be paid. This causes an increase in commodity shipping and increased losses, which severely influences commodity quality. Moreover, when the supply sources make



their distribution it is easy to experience such occurrences as keeping the best goods and handing over inferior goods, retaining a large amount while handing over a small amount and keeping fast-selling goods and turning over slow-selling goods. All of this generates contradictions between foreign and domestic trade. Therefore, in reforming the overall system of commodity circulation, in regard to the commodity channels of circulation and the management links there must be research and decisions which make all possible reductions of the links. Whenever possible, the foreign trade departments ought to make direct purchases from the producers, especially from the export commodity comprehensive bases, special plants and special shops supported by foreign trade, and their main commodities should all be purchased directly in order to reduce minor disputes and economic losses. All export commodities which are entrusted to domestic commercial purchase agents ought to be executed through purchase agent contracts, which should be strictly enforced.

Production enterprises, commercial enterprises and foreign trade enterprises ought to strictly implement planning and carry out their operations according to economic contracts. The export items regulated under the plans ought to be turned over according to the stipulated quality, quantity and time of delivery. The foreign trade enterprises are responsible for purchases and guarantee to complete the task of exporting the goods, and if they do not they must bear the economic responsibility, and domestic and foreign trade must not push each other out or compete against each other. There must be an overall concept of things. In areas and enterprises which are provided with certain conditions we can establish joint import-export companies which have coordinated production, supply and marketing. They will help in easing the contradictions between domestic and foreign trade, so they ought to be actively developed and expanded.

5. Energetically develop processing with supplied materials, assembly with supplied parts, processing with supplied samples and other such lively forms of trade. These forms can utilize domestic production capabilities and human resources to expand commodity exports and increase foreign exchange revenues, yet they will not reduce domestic commodity supplies, but, to a certain degree, will increase supplies of certain new products and increase supply sources of consumer goods. This will be beneficial in resolving the contradictions between domestic and foreign sales.

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## FOREIGN TRADE

### CREATION OF FAVORABLE FOREIGN INVESTMENT ENVIRONMENT STRESSED

Guangzhou NANFANG RIBAO in Chinese 19 Sep 83 p 4

/Article by He Jiasheng /0149 0163 5116/: "Strive to Create Outstanding Investment Conditions for Foreign Businessmen"/

/Text/ Experimental special economic zones /SEZ/ are a component of China's policy of opening up to the outside world. The practice of the past 2 to 3 years bears out that SEZ's are an effective way to utilize foreign capital in a relatively concentrated manner, and are full of vitality. At present the problem is that we must favorably sum up our experiences, further integrate our knowledge, and according to the special characteristics of the SEZ's production relationship, draw up a complete set of policies and measures advantageous for attracting foreign capital, and raise the construction of China's SEZ's to a new level.

China's experimental SEZ's are not special political zones. They must, on the premise of upholding four fundamental principles, economically adopt political measures that are even more special. These are determined by the special characteristics of the economic relationships within the SEZ's. To put it briefly, the following few points are essential. 1) The source of funds for the construction of SEZ's must essentially rely upon the import of foreign capital as a key. 2) The social economic structure of SEZ's is the simultaneous existence of many different economic components, using the state's capitalist economic component as a key. 3) The products of the SEZ's enterprises must rely on sales abroad as a key; other production and circulation is determined by the international market's law of value and law of supply and demand. 4) Due to the few aforementioned determinations, we must skip over China's existing economic management systems, and under the state's guiding plan must broadly bring into play the market's regulative role, and gradually establish an economic management system that uses a market economy as its key. Based on these few special characteristics, we must be adept at "new methods for new situations, special methods for special situations, totally new methodology but unchanged in basic stance." We must formulate a complete set of policies and measures that suits this, so that we can import, in a greater volume and more concentrated manner, foreign funds for the construction of SEZ's, and promote the development of social productive forces.

I feel that at present, many of China's SEZ's are really in the stage of laying a foundation. We must earnestly research, in the construction of China's SEZ's,

the successful experience of the Shekou Industrial Park of getting the earliest start, with the quickest construction and a fundamentally shaped investment environment. This is beneficial for recognizing the policies and measures of SEZ's that we must adopt.

Earnest and down to earth, we must start from the most difficult construction of basic projects, and simultaneously bring in new technology and go into operation and recover costs. We must both strive quickly and go for heavy benefits. The Shekou Industrial Park originally was desolate beaches and rough mountains and uncultivated, virgin land. After initial reconnaissance, design and an overall plan, they first worked on the basic "five connection and One Leveling." After no more than 2 years of arduous labor, the basic project was fundamentally completed by August 1981. The "five connections" were comprehensively carried out, i.e., connection completed for air and rail traffic, water, electricity and telecommunications systems connected up. "Leveling" was taking eight small mountain tops and cutting off their top half, excavating 2.89 million cubic meters of earth and stone, and leveling more than 1 million square meters of land. Currently, foreign businessmen, after choosing a factory site or factory building, can, within 50 meters, immediately hook up electricity and water. Further, there is an ample supply of living quarters, and all this creates an excellent investment environment for investors.

Proceeding from actual conditions, we plan preferential treatment for foreign investors. In flourishing SEZ's of the economic world of today, we must compete and strive for foreign capital. Foreign investors, in choosing an investment location, besides calculating such political factors as whether the political situation is stable, also take into account whether or not a place is economically preferential compared to other localities. This is because the goal of capitalist investors is to acquire an extra amount of profit higher than an average level, or to acquire, using other methods, cheap land and labor that is unattainable or extremely difficult to acquire. We are giving foreign investors preferential treatment and supplying a certain "contribution" in order to develop our own productive forces. In view of this knowledge, the business recruiting office relies upon the experience of engaging in business activities abroad for a long period of time, and refers to the preferential treatment in a few export processing zones and free trade zones in Asia. In January 1980, in order to celebrate the 30th anniversary of the uprising of the Hong Kong business recruiting office, we announced at home and abroad "A Short Guide to Investment in Shekou Industrial Park." It clearly pointed out that the Shekou Industrial Park uses the management of industry as a key, the style of management uses self-capitalization and joint capitalization as a key; we carry out a system of presidential or managerial responsibility under the leadership of a board of directors; foreign capital enterprises use primarily sales abroad for their products, and in land-use fees, labor expenses, income taxes and reductions in custom tariffs, capital import and export, etc., and have set up, through seeking truth from facts, a whole array of preferential treatments. Even more preferential treatment is given newly-established industries, or advanced technical equipment or other items urgently needed for China's modernization construction projects. After the "Short Guide to Investments" was published, it caused intense reaction abroad and in Hong Kong and Macao. People generally feel that this is "currently China's most complete and detailed investment method," "This

place's rent is fair, wages low, communications convenient, and its geographical position is outstanding," "It is an ideal investment location," and "It has a strong appeal."

We must safeguard the stability and continuity of our special policies, fulfill the serious contracts, keep our promises, and establish outstanding international prestige. The preferential treatment pointed out in "A Short Guide to Investment in the Shekou Industrial Park" was published before we had the opportunity to learn from others' mistakes in the construction of China's SEZ's. Its most important content is basically identical to "The Regulations for SEZ's in Guangdong" adopted by the Fifth Session of the Standing Committee of the National People's Congress in August 1980. However, the standard for collecting fees, for example, for income taxes and land-use fees, is a little bit lower. They feel that in dealings with foreign businessmen, we must be particular about prestige, agreements, contracts, equality and mutual benefits. Hence, they clearly announce to foreigners that for any contract agreement signed before the relevant income taxes and land-use fees must be carried out according to the clauses of the original contract. Any contract agreement signed after this should be executed according to the stipulations of "The Regulations for SEZ's in Guangdong." Due to our safeguarding the stability and continuity of special contracts, we have been true to our word, and of all the contracts we sign, we will never go back on an agreement, and will thus gain international prestige. The importation of projects is increasing yearly, and the stand of technical equipment is also increasing year by year.

Creating a highly efficient economic management system provides excellent and reasonably priced service for the convenience of foreign businessmen and for putting a business into operation. For an effective entrepreneur, time is money, and efficiency is vital. Continuing to use for an SEZ an old set of traditional methods, elaborate formalities, too much red tape, even if there is a better investment environment and more preferential treatment, would still cause the foreign businessman to be terrified. Thus, we have carried out a series of courageous attempts under the great support of the concerned departments for establishing a highly-efficient economic management system in the Shekou Industrial Park. This makes the foreign businessmen's entry into and exit from the country convenient, simplifies procedures, opens up Shekou Harbor as a port to the outside world, etc. The outside world generally feels that these few measures are "a flexible and speedy method," "are an outstanding attempt at aiding the four modernizations," and "this SEZ has already become the number one commercial zone of its kind in China."

In short, we must create safe and outstanding investment conditions for foreign investors, and cause the healthy growth of China's SEZ's, a newborn baby in the embrace of its mother country.

12437

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DEVELOPMENT OF XIAMEN SPECIAL ECONOMIC ZONE URGED

Fuzhou FUJIAN RIBAO in Chinese 8 Sep 83 p 3

[Article by Liu Rogmao /2629 2873 0379/: "Build an SEZ with Xiamen's Special Characteristics"]

[Text] Of China's four special economic zones [SEZ], the Xiamen SEZ must have its own special points. What special points must the Xiamen SEZ possess? This cannot be determined by the subjective desires of people, but must proceed from Xiamen's objective reality, fully reflect Xiamen's special points and comprehensively give play to Xiamen's superiorities.

What are Xiamen's special characteristics? First, Xiamen is a coastal city on China's southeastern coast, and its main superiority lies in "the sea." It is the middle point of the sealane between Shanghai and Guangzhou. It is 170 nautical miles from Gaoxiong [Kaohsiung], 287 nautical miles from Hong Kong, 677 nautical miles from Manila, and 816 nautical miles from Nagasaki. It has a natural deepwater port, wide harbor and deep water, it does not become frozen over or silted up, the harbor goes deep into dry land, a chain of mountains obstructs wind, and we can build deepwater wharfs. At present in the new Dongdu Harbor, ships of the 20,000-30,000-ton class need not wait for the tide and can at any time enter and exit the harbor. Ships of the 100,000-ton class, after a boat channel has been dredged, will not be affected by the tides. Xiamen's goods can be transported by sea to all of the important ports of the world. It is a famous commercial and trade port for overseas trade. Xiamen has many talented nautical personnel possessing rich shipping experience; this is advantageous for developing undertakings of international trade and ocean shipping. Second, Xiamen and its hinterlands in the southwestern part of Fujian Province are the native place of 1 million Chinese living abroad. Xiamen throughout the ages has been an important passageway and transfer and stopover city for countrymen living abroad and who are entering and exiting the country. Overseas Chinese love their country and homeland, and are enthusiastic about the undertaking of construction in their native places and mother country, and will play an important role in the construction of the SEZ. Third, Xiamen is an island city; the weather is delightful, the scenery is beautiful, and there are many tourist spots--Guliang Island is famous at home and abroad as a "garden on the sea." It is suitable for development of the tourist industry. The small islands are separated by natural partitions of water, and are appropriate for a comprehensive SEZ on a scale covering all the islands. Fourth, Xiamen's

culture and economy are relatively developed. Presently it has more than 700 factories and 100,000 workers. It has Xiamen University, Jimei College, and other famous institutes of higher learning. In the entire city there are more than 300 institutes of higher learning, high schools and elementary schools, and 170,000 students, and the level of culture and education is fairly high. Not only are labor resources plentiful, but the workers' labor accomplishments are good and they quickly adapt to new technology. This is beneficial in using foreign capital to construct new factories and transform old businesses.

These special points of Xiamen are interrelated. We must comprehensively utilize Xiamen's many superiorities. Based on these special points and superiorities, Xiamen SEZ will have four key developments, and one development goal, what we may call "turning four wheels, moving toward one goal." That is, we must stress the construction and coordinate development of export processing zones, the transformation of old enterprises, the development of the tourist trade and the expansion of international trade as these "four wheels." The goal is to enthusiastically import foreign capital, advanced technology and equipment and management experience, comprehensively develop the land and human resources, gradually form an SEZ on the scale of the entire island of Xiamen, gradually build a socialist city possessing a high level of material and spiritual civilization, and give full play to its special role in the socialist modernization and construction of our province and country.

How should we, after all, turn "the four wheels" and realize the construction goals of Xiamen SEZ?

1. Export processing zones must as quickly as possible create comprehensive production capabilities. The Huli Processing Zone of the Xiamen SEZ is a focal point for importing foreign capital, advanced technology and management experience, building new factories and enterprises and producing export goods. According to the overall plan, the processing zone in the first phase of development can accommodate the opening of 750 factories and employ 20,000 workers. During the second phase of development it will accommodate the setting up of 100 factories and employ 15,000 workers. Construction got under way in October 1982 of the first foreign self-financial and managed stamped-brick plant covering an area of 20,000 square meters; at present it is about to start trial production. Huli's investment environment is being formed, and we must as quickly as possible create competitive production capabilities and open up the international market. First, the sources of foreign capital must be numerous. This way we can select a path, avoid dependence and reduce blindness. Second, we must put a certain special emphasis on attracting foreign capital. Shenzhen and Zhuhai, which are adjacent to Hong Kong and Macao, will draw a large amount of capital investments from Hong Kong and Macao. Xiamen is a coastal city that uses an excellent deepwater port, and it has good transport facilities. Many businessmen from the United States, Japan and Europe have an interest in the Xiamen SEZ. The Xiamen SEZ should welcome capitalists from the United States, Japan and Europe to set up factories. Certainly, we must also enthusiastically compete for investments from businessmen from Hong Kong and Macao, and with favorable conditions and flexible methods, encourage overseas Chinese to come and invest in Xiamen, and participate in the construction of their native land.



In stages and in groups we must transform the urban market. At present in Xiamen, the problems of obsolete equipment, backward technology and substandard results exist in most enterprises. In importing technology and equipment from abroad and transforming existing enterprises, we can promote the improvement of an enterprise's products, improve productivity fairly quickly, increase competitive capability and enhance economic results. However, the work of importing foreign capital and transforming existing enterprises has great political importance, is highly technical, touches upon many aspects, involves a large amount of work, and must be carried out with leadership, in a planned way by stages and categories. The leadership especially must take charge, and the relevant departments must organize special work groups. The enterprise must have a responsible person for each project that it imports and transforms, and it must carry out a feasibility study, item by item, and draw up a feasible plan. We must in policy encourage the enterprise to import technical equipment and carry out transformations. For example, concerning newly added profits from the import of technical equipment, according to the principle of considering the state, the collective and the individual, a certain proportion must appropriately be retained by the enterprise and act as the enterprise's funds and welfare for workers. Concerning tax revenues and loans, these also must be appropriately considered and enthusiastically supported.

3. Develop tourist trade, and cause the SEZ to become a stopover point for countrymen living abroad to enter and exit the country. In 1982, Xiamen received more than 33,000 foreign visitors, an 8.5 percent increase compared to 1981. However, Xiamen is not a typical tourist city. Around the time of the War of Resistance Against Japan, each year many overseas Chinese came directly from abroad to stopover and transfer in Xiamen, and to return to the interior to visit relatives. In the past 30 years, Hong Kong gradually replaced Xiamen and became the passageway for overseas Chinese to enter and exit China. In the last few years, overseas Chinese returning to their native land after stopping over in Hong Kong have then taken a boat for Xiamen or have switched to going directly inland from Xiamen. We must enthusiastically create conditions and restore Xiamen's position as their main passageway for entering and exiting the country and as a stopover and transfer city for entering the hinterlands. This will not only help strengthen relations between overseas Chinese and countrymen living abroad and their mother country, but can also enable countrymen living abroad to increase their time of visiting relatives and sightseeing and can reduce their traveling expenses. It can also promote a flourishing Xiamen and increase foreign exchange revenue. Xiamen must replace Hong Kong and resume this role. Although it is superior geographically and in a human sense, there are still many things that it must do. For example, overseas Chinese when returning to their native land, like to bring many items to give to their relatives and friends. We must have a flourishing commerce that is able to supply all types of nationally made goods and "foreign goods" that are both beautiful and cheap. We must be warmhearted and considerate in hosting countrymen living abroad. We must build the necessary tourist facilities that both have a national flavor and modern installations. We must also have modern international and domestic transportation and communications installations, etc.

4. Construct a transportation and communications network and expand international trade. Sea transport with a close relationship between foreign economy and

trade is the lifeline that forms and develops the city of Xiamen. Building modern wharfs, establishing an ocean fleet and developing foreign trade all have an important role in increasing the vitality of the Xiamen SEZ, fully giving play to its superiorities and increasing economic results. At present, the ships used to import and export from Xiamen port are all rented. Xiamen Port's standards for transport charges for the import and export of goods are too high, and some transfer links are unreasonable. There are still many inconveniences in renting boats, thus increasing the burden on foreign trade and hindering the accomplishing of the export of goods. Some goods cannot be promptly transported, thus affecting the fulfilling of a contract for the delivery of goods. Depending entirely on rented ships is definitely not the best thing to do. If the Xiamen SEZ created a shipping company, built its own ships and developed its shipping trade, then it could more advantageously develop international trade. We can absorb the past few years' experience and use foreign capital to purchase ships, first build small fleet and use Hong Kong and Macao shipping lines. Later we can gradually increase the number of ships, extend shipping lines and sail to Singapore, Manilla, Japan and even Europe and America. Also, we must initiate the running of domestic north-south shipping to each coastal port. When the situation permits, we must also undertake trading and shipping with Taiwan. The Xiamen International airport has now been completed and is about to be put into use. The opening of this international airport will signify that the Xiamen SEZ is entering a new stage of development. We must strive to open up foreign and domestic routes, and give full play to their positive role in expanding foreign circulation, accelerating the construction of the SEZ, making a flourishing Xiamen economy and vigorously developing Fujian Province.

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WEN WEI PO COMMENTARY ON ECONOMIC REPORTS

Self-Perfection of Socialist System

Hong Kong WEN WEI PO in Chinese 5 Oct 83 p 3

[Article by Jiang I Wei [5592 0001 5517]]

[Text] It was Hong Kong's Wen Wei Po's 35th anniversary, and I was invited to write something. I have had an association with Wen Wei Po in the 40's, so I feel obligated to write something to congratulate them. However, because my work has been very busy and chaotic, I never had time to submit anything. I feel very sorry about that. Now I would like to talk about the issue of the economic system reform, according to my personal superficial understanding, to explore and discuss and share with overseas readers.

Reform Is Not Changing of The System

In my contact with some overseas people whenever I am at home or overseas, talking about our country's reform issue is unavoidable. I discover that quite a few overseas people often confuse the economic system reform that we are undergoing now with the change of the social basic system, therefore causing all kinds of different evaluations.

Not long ago, in the "Government Work Report" of one of the meetings of the 6th People's Congress, Premier Zhao Ziyang made a short statement of great importance. He said, "The purpose of every type of change, that we are making and are going to make, is to overcome the disadvantages and shortcomings of the original system which obstruct the society's productive development, to gradually form a new economic system suited to our country and our national characteristics, to establish a socialism with Chinese characteristics. This reform is also a revolution, but is the self-improvement and self-perfection on socialism's very own foundation." This statement is just the right answer to the above mentioned misunderstandings.

Diverse Economic Ingredients

Since the Third Plenary Session of the Eleventh CCP Central Committee of our party, our country has put into practice the policy of opening the economy to the outside, and enlivening the domestic economy, and has started to carry out

the reform of the economic system. One of the most important reforms is to have diverse economic ingredients existing together and to use diverse management forms. To carry out and prove this reform is completely necessary. It has already obtained obvious achievements, but has not abandoned the basic system of socialism.

Practicing the system of public ownership of the means of production is the main mark of the socialist economy. This is unshakable. But the passage from socialism to communism will require a very, very long historical stage. It is obvious and easily seen that it is impossible to effect a unitary economic system and management style in a short period of time. In the past under the influence of "leftist" thinking, to conduct "Firstly, big and secondly, publicly owned" and "making do in poverty" etc., disobeyed the objective rule of economic development and also disobeyed the principle of Marxism concerning the necessity of production relationships to match productivity development. This influenced the development of our country's economy. This lesson in history brings us to one conclusion: during a relatively long historical stage, we must have the system of public ownership as a foundation, we must permit the existence of both diverse economic forms and diverse management styles, and so press forward with the advancement of the socialist economy. The reform in recent years has practiced and proved that this conclusion is completely correct. It is the important theoretical basis of our insistence on practicing the open door policy and enlivening domestically.

#### Farmers Are The Main Priority of Management

In recent years, our country has obtained the most obvious achievements in the economic reform of improving farm villages. The main issue of the reform of farm villages is to basically carry out the collectivization of the important means of production and the management style of farm households as the first management priority. During the progress of reform, some comrades worried that it might destroy the collective economy, but rather that it improved the collective economy.

The economic reform of the city is much more complicated than the farm villages and the progress is also slower. But to follow the road of diverse economic forms and diverse management methods existing simultaneously is also affirmative. In recent years, we adopted the policy of encouraging collective and individual economic development. Within four years, the worth of collective enterprises has increased 49 percent. At present, the collective and individual economies are still making swift progress.

#### The Existence of State Capitalism

For socialist countries, the economic system of ownership by the whole people takes the main leading role, and to develop the collective economy and complement this with the individual economies of the city and county laborers is absolutely necessary for a prosperous socialist economy. Moreover, we are also carrying out the open door policy, and welcoming foreign enterprises, overseas Chinese and countrymen to invest in our country, to establish joint ventures or independent venture enterprises in order to propel the development

of our economy. The nature of these enterprises belongs to state capitalism. To permit partially the existence and development of state capitalism ingredients under the socialism system is a problem which was earlier already solved in theory. Lenin's glorious works about state capitalism were important for the development of Marxism.

#### SEZ's, Foreign Trade

Hong Kong WEN WEI PO in Chinese 6 Oct 83 p 3

#### [Text ] The Nature of Special Economic Zones

According to the above principles, we also tried to test special economic zones in Guangdong and Fujian in order to increase the economic cooperation and communication between China and foreign countries. What is the nature of the special economic zone in terms of economic ingredients? This has been explored and discussed by the theoretical circles in this country. The majority think it also has the nature of state capitalism. I personally think that the idea of state capitalism, in the past, was talking about individual enterprises. From its natural connotation, we can also expand it to a district. The whole special economic zone has enterprises of all types, among which are enterprises owned by the whole people, joint venture enterprises, and also privately-run, independent venture enterprises, but they are all under the administration of the socialist country, and help to increase the prosperity of the socialist economy. Therefore, the whole district has the nature of state capitalism. Although many economic ingredients exist together in the special zones, but since they bring in foreign capital, the majority are of necessity joint or foreign capital independent operated enterprises, so in terms of economic management, special policies to adapt to the capitalist management form must be adopted. Does this kind of conduct abandon the principles of socialism? I don't think this problem exists, because if a socialist country has embarked on economic communication and cooperation with the capitalist world, it has to follow the management style of capitalism to deal with foreign capital. At the same time, it should insist on the principle of equality and mutual benefit to protect the interests of the socialist country. Just as Lenin said after the October Revolution when considering practicing the leasing system in Russia, "we should prove according to the relationships of capitalism that these conditions are acceptable to the capitalists and also are beneficial to them, and at the same time we also should receive benefits from this." (Lenin's Complete Collected Works, Volume 32, p 297)

#### Foreign Contact Zones

Since we practice the open door policy, every place in the country can bring in foreign capital and establish joint venture enterprises. This being the case, why do we have to set up special economic zones along the border areas of our country? The real purpose of doing this is to establish a bridge zone in order to make communications more convenient between the socialist country and the capitalist world. As long as the capitalist world still exists, and a socialist country wants to have an effect on the world economy, and wants to have trade and economic cooperation with the capitalist world, then such a



bridge zone can make it more convenient to deal with international capital, and more convenient for overseas Chinese and fellow countrymen to contribute help to establish their motherland. This is very good for the Four Modernizations of our country. No matter to what degree the economy of the special zones develop, they still have a very small weight compared to the whole people's economy. Therefore it definitely will not influence the socialist nature of our country's economy.

#### Diverse Management Forms

Socialist economy not only can simultaneously use diverse economic forms, at the same time it can also simultaneously use diverse management forms. The collective ownership system of the farm villages has not changed, but has adopted the "farmers as the main priority" management method. This is a reform of the management method, it adapts to the productivity level of our country's farm villages, so it strongly propels the economic development of the farm villages. Besides advancing the collective and individual economies in the city's industry and trade enterprises, the all-people ownership industry and trade enterprises have also given rise to the diverse form management responsibility system in the expansion of autonomy, reconstruction and unification. Currently they are summarizing their their experience; in the future, some of the enterprises owned by the whole people might be operated by the state, some might be collectively operated, taking their own responsibility for profits and losses, or practice the profit-loss responsibility system. But no matter what kind of management responsibility system we adopt, it will just be a different management method, it will certainly not change the nature of the all-people ownership system.

Using the above as examples, they all explain that every type of reform we are making today does not go against the basic system of socialism. They are all under the great premise of upholding the socialist system, breaking down the barriers of old thinking to search for a more reasonable system to carry out the modernization of socialism more effectively.

#### The Reform Is Flourishing and Still Not Ended

Under the guidance of the liberated thinking and the road of seeking truth from facts of the Party's Third Plenary Session of The Eleventh CCP Central Committee, the reform of our country's economic system is still at the experimental stage of flourishing and unended, however, it has manifested its great life strength. In the process of reform, developing broad discussions in theories, and making necessary modifications to methods and procedures according to the achieved effect, are both necessary rules for producing and developing a new thing. I feel deeply that the present situation of our country is just like a ten thousand ton big ocean liner making a turn in the ocean. The tremendous inertia makes it hard to avoid shaking and tumbling a little bit when making a turn, and it won't be able to turn that quickly. But knowledgeable people will foresee that once the big ocean liner turns around, heading in the right direction, it will ride the wind and break the waves and move forward at a high speed. History has proven that Chinese people are very wise and talented, they have been good at developing economy from the beginning. It can be believed that under the correct guidance of the Party and our country, we will work out a socialist road with Chinese characteristics in the near future.

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